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REPORT OF THE EXPERT MEETING ON GOVERNMENT AND PRIVATE SECTOR ROLES AND INTERACTIONS IN SME DEVELOPMENT

Held at the Palais des Nations, Geneva,
from 23 to 25 July 1997

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I. RECOMMENDATIONS ADOPTED BY THE EXPERT MEETING

Preamble

1. The Expert Meeting stressed the important contribution SMEs can make to the effective functioning of the market economy and to employment, growth and development. In the light of their deliberations and exchange of experiences, the experts made the following recommendations to the Commission on Enterprise, Business Facilitation and Development.

A. Channels of government-private sector dialogue

2. Since dialogue is an interactive process, not an event, it must be structured, relevant, transparent, and representative, and it should have an effective influence on both policy formulation and implementation; effective dialogue requires independent and responsible partners; and effective dialogue must occur at all appropriate levels: federal, regional, local, sectoral, etc.

3. Recommendations to Governments:

(i) To advance the dialogue between government and the SME sector, the experts recommended that all levels of government - federal or central, state or provincial, and local, municipal or regional - participate fully;

(ii) In recognition of the different requirements and interests of large and small business, the experts recommended that SMEs should be encouraged, and even assisted by Governments, to organize their own representation in the dialogue, having regard for and reflecting the full range of diversity among them;

(iii) Governments should develop effective mechanisms for consensus-building between all the relevant actors (Governments, implementing agencies, representatives of SMES);

(iv) Governments should help to strengthen the capacity of representative bodies, without compromising their independence, by providing government funding for specific services such as research on behalf of their members, including research by academics on SME topics and training;

(v) Where SME organizations are fragmented, Governments should help them to strengthen their capacity for effective representation by encouraging the creation of an umbrella organization or committee to harmonize their voices in dialogue with government. Where there is a problem of under-representation of SME interests in business representative bodies which encompass members of all sizes, Governments should encourage the creation of a specific SME committee within the wider organization;

(vi) Governments (in particular local governments) should collect information regarding the SMEs within their territories, including their contribution to the economy and job creation.

B. Policy coherence

Recommendations to Governments

4. Based on the assessment of lessons learned from past experience, the experts recommended that, in the interest of achieving stability and coherence in macro and micro policies for SME promotion, Governments should identify their appropriate role and activities to better support SMEs; they should adopt the principle of subsidiarity, that is identify who can do what best and at what level; in this context it might be necessary to develop the necessary legislation for non-state service providers. Governments should undertake needs assessment and develop tools to evaluate impacts of policies and programmes (including support mechanisms);

5. The experts were of the opinion that policy coherence must occur in at least five areas:

(i) There must be coherence between macroeconomic conditions and micro policies favouring SMEs, because macroeconomic instability not only affects SMEs more but can also destroy whatever impact SME programmes could have;

(ii) Policy coherence is needed among all public and private sector bodies involved in SME support services in the country because fragmented policies and programmes waste scarce resources;

(iii) There must be policy coherence among all levels of government, since what is achieved at the federal level might be undermined at a lower level and vice versa;

(iv) There must be stability, clarity and coherence in implementation;

(v) There must be coherence between policies to promote internal growth of SMEs while respecting external obligations and commitments such as WTO agreements.

6. SME issues should be integrated into overall industrial policy. However, Governments should also have a national strategy to redress biases against SMEs by addressing their specific needs such as access to a range of business services which large firms commonly have internally.

C. SME support measures and agencies

Recommendations to Governments

7. The experts recommended that support measures and agencies, whether provided or organized by the Government or to private sector, should be needs-based or demand-driven. They further recommended the use of surveys to identify the needs of target groups and to evaluate the impact of these measures, programmes and agencies.

8. The experts regarded it as critical that Governments adopt the principle of subsidiarity in designing efficient support measures. First, the provision of support measures should be the responsibility of all players, Governments, business associations, and NGOs. A coordination agency should be created which is independent, business-oriented, run by qualified and adequately remunerated staff, and sustainable. Second, support measures should be decentralized as much as possible.

9. The experts recommended that Governments facilitate networking among service providers to contribute to the efficiency and effectiveness of the support infrastructure at the federal, regional and local level and provide government assistance for research on marketing, trade promotion activities and technology diffusion programmes.

D. Recommendations to UNCTAD (all areas)

10. The experts recommended that the importance of SME development be put on the global agenda and that UNCTAD should introduce the topic of SMEs in the General Assembly so that all Governments appreciate the contribution of SMEs and discuss ways to promote them.

11. The experts recommended that UNCTAD review and report on case studies on effective mechanisms to promote dialogue, with particular reference to mechanisms for achieving balance, transparency, integrity of representation, effective impact on policy formulation and implementation.

12. The experts recommended that UNCTAD should undertake a survey of tools available to assess needs and to evaluate impacts of policies and support programmes and disseminate them among interested countries.

13. The experts recommended that UNCTAD review the types of policies developed at the federal and local level in different countries and prepare a report. It should also identify what new policies could be developed to support SMEs in more efficient ways (for example, new methods to facilitate better access to credit), bearing in mind that these policies have to be consistent with international obligations, i.e. WTO agreements. UNCTAD should consider designing "pilot" projects in strategic areas to help disseminate (especially to LDCs) successful experiences which can be replicated.

14. UNCTAD should review the coherence between trade and micro policies and its impact on SMEs. In particular, it should identify whether the increased failure rates of SMEs result from a lack of competitive advantage or from a lack of adequate business support mechanisms (whether public or private) and/or underdevelopment of business service infrastructure.

15. Given the importance of increasing the competitiveness of SMEs, the experts recommended that UNCTAD extend its operational programmes, such as TRAINFORTRADE, Trade Points, and EMPRETEC 21, to more countries and enhance relevant transit programmes.

16. UNCTAD should promote an exchange of views among practising experts in business support services, i.e., on how to facilitate more effective SME marketing activities by increasing information about trading opportunities and national trade regulations via trade fairs, trade exhibitions, trade data bases, etc.

17. UNCTAD should study how best to make information accessible to SMEs about the availability of support services and how support agencies can better market their services. This study should review mechanisms for financing of support agencies and support services, including their sustainability, cost-recovery and pricing issues and the role of price in responding to SME needs.

18. UNCTAD should search for synergy with other international organizations, taking into account their work on SMEs.

II. CHAIRMAN'S SUMMARY OF EXPERTS' DISCUSSIONS

1. The Expert Meeting on Government and Private Sector Roles and Interactions in SME Development focused on four main topics: (i) channels for government/private-sector dialogue; (ii) policy coherence for SME development; (iii) SME support mechanisms and agencies; and (iv) the role of professional associations in government/private-sector dialogue and SME support.

(i) Channels for government/private-sector dialogue

2. Globalization and liberalisation, facilitated by rapid progress in information and communications technologies, are dominant trends in the world economy. Their economic impact radically changes the relationship between the government and the private sector. As a result, economies have become more market-oriented and enterprises play an increasingly important role in the development process. Conversely, the role of government is progressively shifting from direct economic intervention towards the creation of an enabling environment for the establishment and expansion of private enterprises. Globalization has meant that competitiveness is increasingly based not only on price but also on a culture of innovation and the capacity of a firm to change. Many of these changes are made possible through government/private-sector dialogue to promote enterprise development. Since dialogue is an interactive process, not an event, it must be structured, relevant, transparent and representative, and it should influence both policy formulation and implementation; effective dialogue requires independent and responsible partners, and it must occur at all appropriate levels of government. It is important that the mechanisms for government/private-sector dialogue facilitate this interactive process.

3. In several countries, such as Mauritius and Nepal, formalised mechanisms for public/private-sector dialogue have been in existence for some time and have proved their usefulness. Many countries are in the process of establishing various mechanisms for public/private-sector dialogue, including consultative and deliberative councils at the national, sectoral and local levels. In Mauritius, a three-tier system has evolved over time which is based on sectoral associations, core national bodies, including chambers of commerce and professional associations, and a Joint Economic Council at the apex acting as a spokesperson of the private sector in the highest policy-making bodies. Hungary is in the process of creating an Entrepreneurship Development Council on which representatives from government ministries, chambers of commerce, business associations and individual experts will serve with a view to advising the Government on creating enabling commercial and legal frameworks for SME

development. In Romania, the consultative councils will also invite foreign investors to participate. Country experience shows, however, that the habits and practices of dialogue are still evolving and that best practice in this domain is still to be assessed.

4. In defining dialogue, a distinction was made between consultation, which may occur several times a year at the national level, and dialogue, which involves a greater flow of communication and understanding within a continued relationship. There was general agreement among experts that dialogue for SME development at the local level is vital because it is at this level that dialogue can be an interactive result-oriented process. As experience in Australia, the Russian Federation and other countries has demonstrated, weak or even non-existent dialogue at the local level undermines results achieved at the central level. The success of the Emilia Romagna region in Italy demonstrates the correlation of SME development with local and regional development. Decentralised dialogue allows for the local development of both human and institutional capacities to carry out a focused and result-oriented policy dialogue. Regionally or locally driven government/private-sector interactions do, however, require a national policy framework for enterprise development to guide and direct local and regional initiatives.

5. The public and the private sectors need to work in partnership, cooperate and not see each other as adversaries. This requires that their relations be based on trust and conducted with professionalism. Experiences in Mauritius, the Russian Federation and Croatia underline the need for an efficient, competent and impartial bureaucracy which is transparent in its interaction with the business sector and a private sector which is prepared to discuss policy issues and strategies for enterprise development and which is not primarily seeking concessions from government. Dialogue should result in practical public policy if it is to command the trust of the private sector.

6. The possible conflicts of interest between large firms and SMEs and the tendency for government dialogue with the business sector to be dominated by the interests of large firms represent a common problem. Factors contributing to this bias are the larger firms' greater economic and political influence (which is in part a consequence of their larger individual contribution to corporate taxes) and the greater influence they command in umbrella organisations such as chambers of commerce. A dialogue which is dominated by the interests of larger firms risks creating policies and strategies which are biased against SMEs. Based on such experiences, it is sometimes advisable for SMEs to form their own genuine representative associations to strengthen their bargaining power. The potential advantages of SME groupings based on specific interest, economic sector

or geographical location were highlighted by the experts. In some countries SMEs have been able to establish effective subcommittees within umbrella organisations. The advantage of remaining in an umbrella organisation is the ability to harmonise opinions, take joint action and avoid presenting the Government with conflicting views from the business community. The Government should play a role as facilitator in encouraging the formation of SME representative associations, as well as research relating to SMEs interests. The role of government in the support of independent research in the area of SME development was considered by experts as not only important for creating a valuable interlocutor for government/private-sector dialogue, but also as a means to stimulate academic recognition of SMEs as integral and major actors in the economy and their interest in undertaking research which can help to inform government policies in this area.

7. To further facilitate dialogue between the public and private sector, it was considered necessary that there be balanced representation of all sectors of the business community, including SMEs. The issue of the representativeness of SME associations, given their heterogeneity, was raised. Experts again stressed the need for SMEs to form associations according to their sector or area of production and interest in order to maintain their integrity vis-à-vis their constituencies and ensure the adequate representation of all types of SMEs. Governments were encouraged to develop mechanisms to preserve the integrity and balance of SME representative bodies in national councils and other consultative fora. Experts drew attention to the value of undertaking surveys of firms as a means of ensuring that the views of SMEs are adequately identified.

8. Other critical factors needed for effective dialogue include: ensuring the promotion of an entrepreneurial culture in developing countries in general; addressing ideological resistance to the transition from a command economy to a market economy; and putting in place measures which foster the integration of informal sector enterprises into the formal sector of the economy. This integration is of particular importance in developing countries, and especially in LDCs, where the majority of SMEs operate in the informal sector. A large number of enterprises are, as a consequence, excluded from dialogue with the Government, thus weakening the design of effective SME development policies and strategies.

9. Governments were encouraged not to neglect their role in the promotion of social partnerships, for example by fostering mechanisms for networking and the development of business associations. Actively seeking to promote social partnerships assists in lowering the costs of production through economies of

scale and scope which SMEs are otherwise less able to achieve. Partnerships also contribute to the process of dialogue and cooperation among all actors in the economy.

10. Methods for the periodic evaluation of the effectiveness of the various channels for dialogue still need to be devised in the majority of countries. Experts encouraged Governments to address this problem. It was stressed that dialogue should be proactive and continuous before and during the implementation of strategies and programmes. Continuous dialogue during the implementation period is very important for the effectiveness of SME development strategies.

(ii) Policy coherence for SME development

11. While regular and effective government/private-sector dialogue is essential for the creation of a coherent policy framework for enterprise development, sound and effective dialogue must at the same time be based on a coherent national policy framework on SMEs. Policy coherence implies not only the design of coherent policies but also clarity and consistency in their implementation, as well as an adequate response from the private sector. Furthermore, policy coherence implies a comprehensive and integrated approach involving all actors, including NGOs and entrepreneurs themselves, in implementation.

12. Experts identified five main areas of potential policy incoherence: between macroeconomic policy and microeconomic policy; between public and private sector bodies involved in SME support services; between the federal and local levels; between implementation and design; and between internal and external policies.

13. Stable and sound macroeconomic conditions are essential for the success of SME development. Even the best strategies for SME development will be undermined if macroeconomic conditions are not conducive to the development of business. Experience shows that macroeconomic instability can be particularly detrimental to SMEs because of their limited ability to adjust to abrupt changes in the business climate. Macroeconomic instability can also encourage inefficient behaviour which can stifle inter-firm co-operation and can reduce the willingness of larger firms to outsource inputs or contract services from SMEs.

14. National, regional and/or local SME development strategies must take into account both the direct and indirect impacts of policy on SME development. Policy coherence for SME development includes policies that relate to infrastructure development or to the development of human and managerial resources. In many developing countries there is a growing awareness that

education and vocational training needs to impart entrepreneurship skills, management skills and the promotion of an entrepreneurial culture. By developing the necessary physical infrastructure, knowledge and skills, as well as providing appropriate incentives, the Government can help to promote innovative capacity and structural change in the economy.

15. Many developing countries are currently preoccupied with the need to bring their macroeconomic indicators in line with internationally accepted standards. Various austerity measures, whether related to the transition to a market economy or structural adjustment programmes, create a conflict between the need for budgetary discipline and a smaller public sector and the demands for additional spending on SME development. Several experts mentioned the conflict between macroeconomic and microeconomic requirements with regard to the extension of subsidised credit to SMEs. It is important for these conflicts to be resolved if the objective of national enterprise development is to be achieved. Such conflicts could be resolved by careful policy analysis and policy design. For instance, policies that entail additional expenditure on SME development could be justified by the added tax revenue that would be generated by a flourishing enterprise sector. SME support services can also operate on a cost recovery basis whenever possible.

16. Consistency between national and local government policy is best achieved within an overall framework for SME development. The lack of coordination between government departments and ministries and local governments was illustrated in one country where there are 45 programmes at the federal level and a number of programmes at state and local levels. These programmes are fragmented under three different ministries, two publicly owned banks and several technical agencies. The various ministries and other government agencies are often unaware of each other's programmes, resulting in duplication and unintended rivalry which serves to confuse the intended beneficiaries of these services. Despite the large budgetary resources devoted to these programmes, surveys reveal that many firms are generally dissatisfied with support services and many are not even aware of the existence of these programmes.

17. Similar to the problem of intra-government incoherence and perhaps contributing to it to some degree is the problem of inter-donor incoherence. The subject of enterprise development has stimulated much donor interest. Several national and international organisations (UNIDO, ODA, ILO) expressed the need for more and better cooperation among bilateral and multilateral donors funding SME support programmes and projects. This would ensure complementarity, create synergies and hence avoid duplication of efforts and the waste of limited resources. This applies at both the field and headquarters levels, including in the context of the Donor Committee on Small Enterprise Development.

18. Policy coherence can often be difficult to achieve at the enterprise level. A common problem is the tendency for most support services to be supply-driven. In some instances, the services and the agencies supplying them are irrelevant because SMEs have other priorities. Experts stressed the need for a change in focus from supply-driven services to demand-driven services. To facilitate the implementation of this change in focus, the use of surveys and other methods of assessment and evaluation was encouraged. The supply of services on a cost-recovery basis was also suggested as one method of gauging SME demands. Fiscal stringency which requires SME support service agencies to be self-financing can also act as an incentive for such a change in focus.

19. Domestic SME development strategies and measures can sometimes be inconsistent with external commitments such as those entered into under international agreements. Governments have to be aware that certain types of SME support measures such as subsidized credits could be in conflict with WTO rules. In this context it is necessary to make a distinction between strategies benefiting nascent SMEs and those benefiting mature SMEs which need to export in order to realise their growth potential. Experts expressed concern about adverse effects on the SME sector which can result if trade liberalization is not accompanied by adequate programmes to help strengthen SME capacity to cope with intensified competition and take advantage of export opportunities. The importance of appropriate -- WTO-consistent -- export support services was stressed in this context.

20. The achievement of policy coherence is a process which evolves over time, requiring a step-by-step approach involving a continuous process of evaluation and adjustment. An example can be found in Mauritius, where policy coherence was achieved incrementally over a number of years.

(iii) SME support mechanisms and agencies

21. The establishment of agencies to implement measures for SME support through the provision of start-up, business and entrepreneurship development support programmes, credit and other business-related services continues to be a priority for Governments. There was general agreement among the experts that support agencies should have as their main aim providing and improving business skills of entrepreneurs, so that they can better recognize business opportunities for SMEs and derive more benefit therefrom and also increase their competitiveness. Governments should recognize the importance of infrastructural support and of investment in education and training for enterprise development. The range of business services to which SMEs need access reflects the fact that SMEs must rely on external resources for services which larger firms can provide in-house.

22. The nature of the services required by SMEs must be defined on the basis of the typical characteristics of the SME. Support services can be and in actual practice are provided by both the public and the private sector and can be subsidized or commercialized. The Expert Meeting considered the question of the relative efficiency of different service providers. The determining question was "who could do what best". Experiences indicated that increased public/private-sector partnership and/or cooperation is preferable.

23. Service providers determine the range of services required by SMEs according to the level of economic and business development of a given sector or region. The same indicators determine the price level of the services offered. Often government or donor-funded support agencies find it difficult to establish full or partial cost-sharing practices.

24. Whether business support should be demand- or supply-driven was again discussed in the context of improved support service mechanisms. The consensus was for demand-driven support, leaving room, however, for supply-driven support in situations where enterprises are not aware or informed about existing programmes or the potential benefits that they could derive therefrom.

Major obstacles to SME development

25. The problems of SMEs remain those inherent in their structure and size - which at the same time account for the important flexibility and adaptability in the sector. The fact that small and medium-sized enterprises are "lonely", causing their weak bargaining position and leverage, represents a more important disadvantage than their size.

26. Poor access to capital due to lack of collateral, the absence of information on the availability of funds and programmes, social and cultural barriers hindering entrance to financial markets, etc., were identified by several experts as the major obstacles to SME development, rather than the availability of credit itself. The need for simplification of administrative and regulatory procedures related to credit provision was also pointed to. Reference was made to UNCTAD's earlier work in this area and to the second session of the Ad Hoc Working Group on the Role of Enterprises in Development (August 1995).[1]

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[1] Final report of the Ad Hoc Working Group on the Role of Enterprises in Development, TD/B/42(1)/17- TD/B/WG.7/8.

27. Other key problems for many SMEs are caused by inadequate management skills, especially those required to compete in the present-day globalized economy, lack of client orientation, limited access to relevant information, not being linked to commercial or productive networks and lack of knowledge and resources for incorporating innovation or quality improvement into production processes. An expert reported that a recent Brazilian study of enterprise survival factors had found that the enterprises more likely to survive and thrive were those which were market-oriented and which had links with other organizations and firms.

28. International donors in general, and NGOs in particular, play an important role in the provision of micro-credit and in training and other support services. A major problem is the relatively high operational costs of some donor-funded NGOs. NGO support activities may need to be better coordinated, as duplication and overlapping of activities persist. In LDCs, donor-dependency of business support providers, mostly NGOs, is an issue of major concern.

Experiences with support agencies

29. The role of support agencies differs when services are provided at the local, the regional or the national level. Experiences indicate that government's support agencies are most efficient when organized at the local level, due to the characteristic local nature of the SME and because of the organizational and structural costs of such organizations.

Public/private-sector partnerships

30. A much cited formula, which has successfully been replicated in some developing countries, is Italy's Emilia Romagna model. The model is a good example of successful institutional public/private-sector cooperation involving political, social and economic actors for creating an environment conducive to enterprise development. It relies on an intensive networking process, involving private business networks and social and public networks, including academia.

31. Developing countries attach equal importance to the establishment of business support agencies. Mexico's PROPICE (*Programa de Politica Industrial y Comercio Exterior*) foresees institutional support for productive sectors and is guided by a broad-based advisory council in which key actors from business and civil society, as well as from academia, are represented. Support agencies in South Africa are based on the concept of the "wholesale agency", where government support is channelled through intermediary bodies that deliver the services to the end beneficiaries, i.e. small businesses. Government does not compete with

existing private sector institutions, but plays a complementary role and fosters the creation of institutions where these do not exist.

Institutional organization of the provision of support services

32. Enterprise support agencies can take different institutional and organizational forms, such as foundations (in Paraguay, a foundation handles the execution of the Inter-American Development Bank's micro-credit scheme), associations and cooperatives (especially in the context of granting micro-credit), but also development banks (the Development Bank of Mauritius provides institutional support for industrial development). More recently, development policies have included credit schemes and support programmes for women entrepreneurs. In the Czech Republic also, certain target groups have been identified for special focus within the SME programme, such as young people and the disabled.

33. A distinction can be made between the so-called "real business services" and financial support (such as grants, loans, tax breaks, etc.). In the Emilia Romagna region, the institution named ERVET, with mixed public-private shareholding, provides real business services, basically related to information, R&D, market research, export promotion, technical consultancy, professional training, quality control techniques, etc.. ERVET provides these services either directly or through its wider support network. One of its service centres is ASTER, the Technological Development Agency. ASTER aims at providing systems within which all actors, including enterprises, can innovatively collaborate. Products demonstrate that the system is effective and that SMEs are capable of using new technology.

34. Certain types of indirect support services provided by the private sector are not generally thought of as business support. However, their existence does respond to needs and requirements of SMEs for the successful operation of business. Typical examples are legal and insurance services, leasing, customs handling, etc., often possessed "in-house" by large enterprises but too costly for SMEs.

35. Institutional services can also be provided by business associations, either as a social service or for the expansion of their membership (as was, for example, done by Mauritius' association of employers).

36. Governments can also outsource or subcontract support activities (to agencies like Turin's CODEX, for example). The private sector, including large enterprises, may also have an interest in creating programmes in the context of the development of their future markets and in practice has been willing to invest therein (banks, telecommunications services) in developed, developing and least developed countries.

37. Several countries in transition have established enterprise or business support institutions, ranging from start-up services to credit and loan guarantee funds, technological centres, business incubators, education and training institutions, chambers of commerce and networking organizations, as well support mechanisms for participation in trade fairs.

38. In the Russian Federation, institutions are based on laws drafted in close cooperation with enterprise representatives. Three main types of credit funds have been established in the Russian Federation, namely (i) those co-financed by national and international private investors, (ii) federally funded schemes and (iii) micro-credit schemes. The latter serve a dual financial and social purpose.

39. Some countries, such as the Russian Federation and Croatia, have established consulting firm networks. Such networks replace institutional support mechanisms, but are less costly and time-intensive to set up, while accomplishing the same goals.

40. In the recently established SME support structure of the Czech Republic, schemes have been developed to address national, regional and local needs for financial and non-financial business support and for cooperation with donor agencies.

41. Experts drew attention to instances when Governments have started up the process for SME development support on a large scale, only to discover at some point in time that during a budget crisis these very support services have to be sacrificed. In funding support agencies, caution is therefore warranted. However, in some cases support agencies have been able to survive sharp decreases in government support by increasing their focus on client demand and recovering more of their costs by adjusting their charges for services.

42. Government-funding of SME support agencies can produce contradictory results. While on the one hand government funding removes the need to become self-supporting and can distort the services offered, on the other hand it gives the flexibility to provide support services whose value and importance may not be evident at first to entrepreneurs who have not experienced them.

Efficient supply of support services: redefinition of the role of the state

43. Evaluation of experiences in countries with institutional SME support schemes dating back, in some instances, to the 1960s indicates that output and outreach have been limited, insufficient and costly. Questions raised as to "who can do what best" for end beneficiaries have led to a reassessment of the role of the state in the direct provision of such services.

44. The policy now generally espoused, including by the Committee of Donor Agencies for Small Enterprise Development, is for a fresh approach to SME support based on the principles of subsidiarity, sustainability, demand-side orientation and targeted services. This new approach includes outsourcing of institutional support services and places emphasis on the provision of localised services.

Demand- and supply-driven business support services

45. Should business support programmes be supply- or demand-driven? Ideally, they should be the outcome of close cooperation with the private sector, reflecting the actual needs of small and medium-sized enterprises. There are, however, differing views. Some hold that enterprises know their own needs best. Others consider that emerging entrepreneurs may have neither the time nor the resources to identify their business support needs. In Mauritius, the latter proposition has been proven correct. This was tested by introducing an initial package of free services, followed by continued services for which enterprises then had to pay.

Pricing of services

46. The perceived ignorance of own needs complicates the setting of market prices for services provided by support agencies. Approaches advocated are the introduction of the concept of cost-sharing, whereby clients are charged nominal fees, or costing policies, whereby core services remain free but charges are levied for the provision of supporting goods and services, so as to allow enterprises to judge the relevance of various services themselves.

47. Other support agencies, such as SEBRAE of Brazil, apply flexible criteria for adjusting fees based on the general economic situation of the region, the level of development of the region's enterprise sector, and its product base and diversity.

Marketing, information and communication

48. Surveys conducted indicate that entrepreneurs are often not aware of the contents or existence of business support programmes. This signifies a failure of service providers to market their products. Marketing of services generally includes the dissemination of information. The use of conventional communication tools and modern communication techniques (e.g. the use of the Internet by business support agencies) in this area has hitherto been limited, with most activities of this nature occurring in developed countries and only sporadically in developing countries (for example, the mobilization of the media for SME activities in Mauritius).

49. Overall, communication within the public administration has been found to be sub-optimal. Often, one part of the administration is not aware of what is happening in other parts of that same administration. There are, however, some exceptions. The Czech Republic, for example, takes a multi-ministerial approach towards enterprise development, thus ensuring inter-administrative communication.

50. The point was raised that awareness of the importance of small and medium-sized enterprises to the economy may well be better understood at the international than at the national or regional levels and that this situation needs to be redressed.

51. In some countries in transition, there is still need to change the public's conceptions of business and entrepreneurship, which linger from the past.

Impact assessment

52. Research on the impact of support agencies is generally implemented after activities have been undertaken. The use of appraisal research at the policy formulation and planning stages seems to be rather rare. Experts felt this omission was disadvantageous. Conducting such appraisal in parallel with the activities may prove useful in spotting trends and correcting or adjusting policies. In Croatia a needs assessment study had been undertaken to inform development of SME innovation policies. Exchange of experiences among countries on methodology and tools for conducting surveys was recommended.

Promotion of inter-firm cooperation

53. Governments can promote inter-firm cooperation. In some developing countries, such as South Africa, and developed countries such as Denmark and the United Kingdom, grant assistance is provided to associations or groupings of enterprises as a means of fostering cooperation and SME networks. In South Africa, a special fund exists to promote inter-firm cooperation.

(iv) The role of professional associations

54. Experiences from many countries have illustrated the importance of the role of professional associations in a variety of areas which are critical for the SME sector. Professional associations can be efficient providers of specialised support services, as well as acting as an effective lobby for SME interests. The greater ability of professional associations to provide services which are better matched to SME needs was also identified as a potential advantage. Moreover, it was suggested that the degree of government intervention should diminish with the development of the private support sector. Larger companies might also provide professional services to SMEs as a result of the division of labour in production processes. Experience shows that the development of subcontracting arrangements between large firms and SMEs can give an incentive for large firms to provide financial, technical and other assistance to SMEs.

55. It was observed that in some cases SMEs' expressed "wants" are not always what they actually require to develop and grow. A more general problem is that SMEs may not have the time or resources to properly identify their needs or find solutions to their problems. Governments can assist by initiating research on SME needs and best practice to address some of their specific problems, including providing financial support for independent research in the area of SME development.

56. The experts emphasised the need to develop a culture of cooperation and collaboration between government and professional associations. For example, in Turin, Italy, CODEX has been successful in ensuring increased resources, better targeting and the sustainability of SME support services by developing partnerships between local government and the private sector.

57. The necessity for SMEs to form their own associations to participate effectively in meaningful dialogue with Government was discussed from different perspectives, with suggestions being made, *inter alia*, to form sector-, product- or industry-specific associations. Experts stressed that this is a critical condition for the development of the SME sector. A potential disadvantage of the

creation of multiple SME associations was, however, that it could result in a fragmented network of SME organisations that did not speak with one voice. In such a situation, there is the risk that the SME sector's bargaining position would be weakened. The lack of resources resulting from limited membership in specialised SME associations is an additional disadvantage. An alternative is the membership of SMEs in an umbrella body representing business as a whole, with the creation of an SME Committee to articulate SME interest. Hungary provides an example of such a structure having been developed.

58. It is very important that associations offering support services to SMEs be dynamic and responsive to changing SME needs and changes in the environment in which SMEs operate. It is necessary for support service providers to develop mechanisms with which to regularly evaluate their service delivery in terms of appropriateness, relevance and effectiveness. The experience of SEBRAE in Brazil is an example of a professional institution which keeps itself informed of its clients' needs and the effectiveness of its service delivery. For example, the introduction by SEBRAE of "virtual schooling" shows its ability to adapt its services in the light of the constraints faced by its female clients.

III. ORGANIZATIONAL MATTERS

A. Convening of the Expert Meeting

1. In accordance with the agreed conclusions adopted by the Commission on Enterprise, Business Facilitation and Development at the closing meeting of its first session on 24 January 1997, [2] the Expert Meeting on Goverment and Private Sector Roles and Interactions in SME Development was held at the Palais des Nations, Geneva, from 23 to 25 July 1997. The Meeting was opened on 23 July 1997 by Mr. Rubens Ricupero, Secretary-General of UNCTAD.

B. Election of officers

(Agenda item 1)

2. At its opening meeting, the Expert Meeting elected the following offiicers to serve on its Bureau:

Chairman:	Ms. H. Booth di Giovanni (United Kingdom)
Vice-Chairman-cum-Rapporteur:	Mr. M. Awni (Egypt)

C. Adoption of the agenda

3. At the same meeting, the Expert Meeting adopted the provisional agenda circulated in TD/B/COM.3/EM.2/1. Accordingly, the agenda for the Meeting was as follows:

1. Election of officers

2. Adoption of the agenda

3. The respective roles of government and the private sector, including NGOs, and the interactions between them in creating a coherent policy framework and setting up effective support measures and structures for the development of SMEs and micro-enterprises, in particular those in least developed countries.

4. Adoption of the report

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[2] See Report of the Commission on Enterprise, Business Facilitation and Development on its first session (TD/B/44/2-TD/B/COM.3/4), annex I, paras. 3-4.

D. Documentation

4. For its consideration of the substantive agenda item (item 3), the Expert Meeting had before it an issues paper by the UNCTAD secretariat entitled "Government-private sector interaction, with a particular focus on the participation of SMEs" (TD/B/COM.3/EM.2/2).

E. Adoption of the report

5. At its closing meeting, on 25 July 1997, the Expert Meeting adopted its draft recommendations (see section I above), agreed to incorporate the Chairman's summary into its report (see section II above), and authorized the Rapporteur to prepare the final report of the Meeting, under the authority of the Chairman.

Annex

ATTENDANCE a/

1. Experts from the following States members of UNCTAD attended the meeting:

Algeria
Andorra
Australia
Brazil
Cape Verde
Central African Republic
China
Colombia
Costa Rica
Côte d'Ivoire
Croatia
Cuba
Czeck Republic
Democratic Republic of the Congo
Dominica
Dominican Republic
Ecuador
Egypt
Ethiopia
Finland
Germany
Honduras
Hungary
India
Iran (Islamic Republic of)
Israel
Italy
Japan
Jordan
Kenya
Luxembourg
Madagascar
Mali
Malta
Mexico
Morocco
Myanmar
Nigeria
Pakistan
Paraguay
Peru
Philippines
Poland
Republic of Korea
Romania
Russian Federation
Senegal
Slovakia
Slovenia
South Africa
Spain
Sri Lanka
Sweden
Switzerland
Syrian Arab Republic
Thailand
Trinidad and Tobago
Tunisia
Turkey
Uganda
United Kingdom of Great Britain and Northern Ireland
United Republic of Tanzania
Uruguay
Venezuela
Zambia

2. The Economic Commission for Europe, the Economic Commission for Africa, and the United Nations Institute for Training and Research were represented at the meeting. The International Trade Centre UNCTAD/WTO was also reprented at the meeting.

3. The following specialized agencies were represented at the meeting:

International Labour Organization
International Monetary Fund
United Nations Industrial Development Organization

4. The following intergovernmental organizations were represented at the meeting:

Inter-American Development Bank
European Community

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a/ For the list participants, see TD/B/COM.3/EM.2/INF.1.

5. The following non-governmental organizations were represented at the meeting:

General Category

Ibero-American Association of Chambers of Commerce
International Chamber of Commerce
World Association of Small and Medium Enterprises
World Federation of United Nations Associations
World Vision International

PANELLISTS

Mr. Mahesh Kumar Agrawal, President, Nepal Chamber of Commerce
Mr. Gabriel Casaburi, Social Researcher, Faculty of Latin American Social Sciences (FLACSO), Argentina
Mr. Azad Jeetun, Director, Mauritius Employers' Federation, Mauritius
Mr. Hussein Kiaratu, Head, Advisory Group on SMEs, Confederation of Tanzanian Industries, United Republic of Tanzania
Mr. Jiri Navratil, Deputy Director of Business Promotion, Ministry of Industry and Trade, Czech Republic
Mr. S. Phillips, Senior Development Manager, International Development Consortium, United Kingdom
Ms. Claudia Vaconcellos Vae, Manager of Planning, Brazilian Agency for the Support of the Small and Medium Companies (SEBRAE), Brazil

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TRADE AND DEVELOPMENT BOARD
Commission on Enterprise, Business
Facilitation and Development
Second session
Geneva, 1 December 1997

REPORT OF THE EXPERT MEETING ON TELECOMMUNICATIONS, BUSINESS FACILITATION AND TRADE EFFICIENCY

Held at the Palais des Nations, Geneva,
from 8 to 10 September 1997

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Annex

Attendance 11

GE.97-51745

I. FINAL RECOMMENDATIONS ADOPTED BY THE EXPERT MEETING

Background

1. The experts stressed the importance of electronic commerce as a vehicle for the integration of smaller players (especially developing countries, economies in transition and small and medium-sized enterprises) in international trade.

2. The meeting recognized the importance for all countries, especially developing countries, of benefiting from practical possibilities to assess the potential benefits of electronic commerce for their own enterprises, in particular small and medium-sized ones.

3. In this context, the experts underlined the importance of UNCTAD's work in the area of trade efficiency and the need to pursue the work undertaken by UNCTAD and its partners to promote the implementation of the Columbus Ministerial Declaration on Trade Efficiency and its recommendations (TD/SYMP.TE/6). They considered that such work is of particular relevance in helping developing countries, in particular governments and SMEs, to better understand and participate in processes under way in other intergovernmental organizations dealing with telecommunications and their trade applications, in particular the International Telecommunications Union (ITU) and the World Trade Organization (WTO).

Recommendations

I. Follow-up to UNISTE

4. The meeting considered that the recommendations made by the United Nations International Symposium on Trade Efficiency (UNISTE, Columbus, Ohio, October 1994) in the sector of telecommunications remain a valid basis for the continuation of intergovernmental activities in the area of 'telecommunications, business facilitation and trade efficiency'.

5. The experts underlined that UNCTAD should pursue its work in this area by complementing the UNISTE recommendations through the consideration of a number of recent trends and events, which have been and will continue to be of critical importance for the competitiveness of enterprises (especially small and medium-sized enterprises) in the years to come. Such trends and events include in particular:

(a) The continuation of the liberalization and privatization processes pursued by a growing number of countries in the sector of telecommunications services and equipment; these processes have been reinforced by the recent WTO Agreements on Information Technology (Singapore, December 1996) and on Basic Telecommunications Services (Geneva, February 1997);

(b) The continuation of the trend towards lower prices for international telecommunications services;

(c) The accelerated advent of new infrastructures such as low earth orbiting satellite systems (LEOS);

(d) The rapid expansion of the Internet, which will have far-reaching consequences on the ways in which individuals and enterprises access and provide information, in particular for the purpose of business transactions.

II. Other priority areas for further work by UNCTAD and its partners

6. In addition to pursuing its work on the implementation of the Columbus recommendations on telecommunications, UNCTAD's work on trade efficiency should encompass the following priority areas:

(a) Electronic commerce: In considering electronic commerce, participants recognised that while basic business concepts such as the customer, goods and payment validation would not change, business and government practices were likely to change rapidly in such a fast-moving situation. Some of these changes would require intergovernmental action to ensure that there is a common understanding and, where appropriate, that clear guidelines are available to all traders and consumers.

(b) Participants also recognised that the impact of electronic commerce would be different at the different stages of the trade process, for example business information on one hand and transaction documents on the other; in both areas, however, the importance of using open systems and internationally accepted data standards was recognised.

(c) UNCTAD should carry out the necessary analytical and practical work to allow members to better understand the development implications of some of the proposals made for setting up a 'global framework' for electronic commerce, including the possible revenue impact of 'tax-free Internet-based commerce. In this context, UNCTAD should provide interested members with analytical and practical support in the context of upcoming intergovernmental discussions on "trade facilitation" and trade in financial services, among other things. Special attention should also be given to the following three areas: (1) electronic payments, (2) identification of obstacles and solutions to global electronic trading systems, and (3) legal dimensions of electronic commerce.

(d) Access to telecommunications-based services: UNCTAD, in close collaboration with ITU, should carry out the necessary analytical and practical work to allow interested members to better assess the various possibilities they may have to access trade-supporting telecommunications-based services at better prices and on more favourable conditions; the particular situation of smaller firms and under-equipped areas (especially in LDCs) should be given priority attention.

(e) Human resources development: UNCTAD is encouraged to pursue and develop its activities in enhancing the know-how of decision-makers and trade practitioners of developing countries and economies in transition in the areas of electronic commerce and the use of information technologies for the purpose of business facilitation and trade efficiency, in particular the Internet.

7. The meeting therefore recommends that the Commission on Enterprise, Business Facilitation and Development should convene as early as possible expert meetings on: (1) banking and insurance aspects of trade efficiency (including electronic payments); (2) identification of the obstacles to a global system for electronic trade transactions covering both export and import processes and the bodies which need to take action; and, at a later stage, (3) the legal dimensions of electronic commerce and other relevant legal aspects of business practices and trade efficiency; and (4) human resources development in the area of trade efficiency (with special focus on electronic commerce).

III. Recommendations for technical assistance activities

8. The meeting requested UNCTAD, within available resources, to expand its assistance to interested countries in the six services sectors identified at UNISTE. North-South and South-South cooperation should be strongly promoted in this connection.

9. The meeting also underscored the importance of UNCTAD's Trade Point Programme to enhance the capacity of small and medium-sized enterprises to identify the opportunities of modern ways of trading based on telecommunications and to master the basic elements of electronic commerce. Participants stressed the value of increased co-operation between Trade Points at the bilateral, regional and international levels. Further consideration should be given to establishing closer institutional links among Trade Points.

10. Special attention should be given to cooperation with the ITU, particularly with the Development Sector and the relevant programmes of its Buenos Aires Action Plan, in particular Program 9 (annex 2), to ensure that electronic commerce is an integral part of its project to construct pilot community telecenters in rural and remote locations in developing countries.

11. Participants considered that further cooperation between the Trade Point Programme and the TRAINFORTRADE Programme would provide significant opportunities to train trainers, decision-makers and trade practitioners in the new techniques of international trade. They stressed the potential use to be made of distance learning tools in this context.

IV. Inter-institutional cooperation

12. Participants expressed their appreciation for the cooperation existing between UNCTAD and other United Nations organizations in the area of trade efficiency, in particular the International Trade Centre (ITC), the United Nations Economic Commission for Europe (UNECE) and the United Nations Development Programme (UNDP). Experts also stressed the potential for further cooperation between UNCTAD and other United Nations economic commissions (in particular the Economic Commission for Africa (ECA)), as well as with the World Trade Organization (WTO) and the United Nations Commission on International Trade Law (UNCITRAL).

13. Participants paid tribute to the remarkable level of cooperation displayed by UNCTAD and the ITU in organizing jointly the Expert Meeting and Telecom Inter@ctive 97, and commended both organizations in this respect. They expressed their wish that the example of this particular meeting could be used as a reference in future inter-institutional efforts of a similar nature.

II. CHAIRMAN'S SUMMARY OF EXPERTS' INFORMAL DISCUSSIONS

A. Follow-up to UNISTE

1. The brief presentation by the UNCTAD secretariat on the evolution of telecommunications services in the world and some prospects for the future was placed in the context of the recommendations of the United Nations International Symposium on Trade Efficiency (UNISTE). Several experts from different countries expressed their interest in receiving a progress report on the implementation of the recommendations and an assessment of the Trade Point Programme. The availability of the latest Trade Point survey on the Internet was announced, and an advance copy of the *Trade Point Review* was distributed.

2. Lack of telecommunications infrastructure (for instance telephone lines) and basic services (such as electricity) still prevents some countries from benefiting fully from available telecommunication services. Although the trend towards lower prices is expected to continue in the short term, several countries (mainly LDCs) expressed concern that they would not be able to afford access to these services and thus that they would be further isolated from the world of electronic commerce.

3. The experts stressed the urgent need for training in the area of new telecommunications technologies and services.

4. The legal framework for new technologies and electronic trade transactions, as well as the impact of their use, were seen as issues of prime importance, and experts expressed interest in knowing what was foreseen for the future.

B. Access to networks

5. The experts had an intensive discussion on the issue of access to telecommunications services, in particular the Internet, which still varies widely among countries. There was a large measure of agreement that different technological solutions for worldwide access to telecommunications are either already available or expected to become available before the turn of the century, for example low earth orbiting satellites (LEOs). However, in practice, obtaining a satisfactory link-up was still seen as an obstacle for quite a number of developing countries.

6. The expert from the United States of America described the activities of the Leland Initiative, under which US$ 5 to 15 million are earmarked to help Africa to connect to the Internet. Madagascar, Mali and Mozambique are already linked up under this initiative, and agreements for future link-ups exist with nine more African countries. He stressed the importance of the policies applied and recommended that, while the state can provide a gateway on a cost basis, Internet services should preferably be provided by the private sector. He also drew attention to the collaborative Africa Internet Forum and to the meeting of the Partnership for Interaction and Communications Technology in Africa (PICTA), to be held in Morocco in the spring of 1998.

7. The expert from Malaysia described how the liberalization of the telecommunications sector had brought about strong competition and rapidly growing demand. He described an ambitious project under which Malaysia would, over the next 10 years, invest over US$ 1 billion in the Multimedia Super Corridor (MSC), which

not only embraces business initiatives like electronic commerce and smart cards but will also be used for telemedicine and distance learning.

8. The expert from Japan reported on the establishment in 1995 of a Cyber Business Association which aims at the promotion of electronic commerce and cyber business in cooperation with the European Union, the APEC countries and the G.7 countries. Japan intends to introduce a fibre-optic network in all households by the year 2010, and by the end of 1997, 19 per cent of its population will already be connected. This will bring access to high-speed multimedia services at a reasonable cost.

9. The expert from Zimbabwe informed the meeting on progress made in cutting waiting lists for telephone connections through the introduction of cellular telephony. While the existing network is still based on copper wire and analogue technology, access to the Internet is now available through several ISPs (Internet service providers).

10. An expert involved in the Uganda Connect project pointed to a highly original way of overcoming existing limitations through the use of donated older PCs which are linked up through a hybrid technology using VHF single side band radio communications. This system has served as a catalyst for more permanent networks and has already been used by the World Food Programme.

11. The expert from Pakistan drew the attention of the meeting to the issue of falling revenue from telecommunications companies and how this has influenced development perspectives through a lack of investment in infrastructure.

12. The representative of the Economic Commission for Africa (ECA) raised the question as to whether Africa is destined to remain underprivileged in the area of telecommunications too. The problem for Africa is not only a quantitative one, i.e. the low number of telephones per thousand inhabitants, but also the switch from analogue to digital. Africa has to address four fundamental issues: connectivity, human resources development, information content, and infrastructure planning and development.

13. UNCTAD's web incubator was presented as a possible solution for countries with no or expensive Internet access to have an Internet presence. An expert from Trade Point Harare (Zimbabwe) confirmed the usefulness of the incubator and informed the audience that substantial transactions had resulted from the country's presence on the web.

C. Applications

14. A presentation was made by ITC of its "Virtual Trade Fair". From the supply perspective, the Fair could be used by smaller enterprises, individual producers and cooperatives; from the demand perspective, specialized agents, consumers and department stores could benefit. The advantages of the Internet for trade are: low-cost communication media, wide exposure and possibilities for multimedia presentations.

15. A presentation was given by the UNCTAD secretariat on the use of telecommunications in the Trade Point Programme. The results of the recent Trade Point survey were described, which showed that Trade Points use telecommunications as follows: telephones, fax and post - 92 %, E-mail - 92%, Internet - 64%, and TV

and radio - 48%. The main impediments in using telecom facilities are lack of training, low quality of lines and insufficient equipment, especially in LDCs. Experts from Mexico, Pakistan, China, Finland and the United States raised questions on the services offered under the Trade Point Programme, its legal framework, UNCTAD's role, financial aspects of Trade Points and private/public-sector involvement.

16. UNCTAD's TRAINFORTRADE programme was presented, and its possible application for Trade Points was explained.

D. Electronic commerce

17. The UNCTAD secretariat gave a brief introduction of the concept of electronic commerce and the techniques involved, underlining the key elements that remain to be addressed: confidentiality, security, government policy issues (regulation, taxation), and countries being left behind. The discussion focused on potential ways to enhance the awareness and knowledge of both Governments and enterprises in the area of electronic commerce.

18. It was underlined that, after the recent proposals made by the United States of America (A Framework for Global Electronic Commerce), the European Union (Ministerial Declaration on Global Information Networks), OECD and Japan, UNCTAD has an important role to play in this sector in terms of bringing to it the "development dimension" which it still lacks. Experts underlined that issues related to electronic payment and the legal aspects of electronic commerce would need to be examined further.

19. A presentation was made of an example of an electronic payment system (Digicash), which allowed experts to understand how such a system works in practice. Today a large percentage of all transactions are made with credit cards. With the Digicash solution, the bank issues a serial number (encrypted code), which is equivalent to a digital signature, thereby offering immediacy of payment and privacy.

20. UNCTAD and ITU held a joint session on "Banking and electronic commerce in the global networked economy", which formed part of the ITU Telecom Interactive meeting. The session was chaired by Mr. Rubens Ricupero, Secretary-General of UNCTAD. In a special opening keynote address, Mr. Bradley Holmes, President of Bradley Holmes & Associates, stated that electronic commerce would become a major application of the Internet. Issues dominating the current debate include security, privacy and tariffs. It was made clear that, in order to create full electronic commerce, government regulations, international law, business practice and infrastructure would have to be addressed globally.

21. Mr. Ricupero stressed the development potential of electronic commerce in the context of the emerging global information society. He underlined that UNCTAD is giving this issue high priority. He stated that technological solutions are now widely available, but work still needs to be done to ensure access to this technology in regions of the world which are less advanced. In the panel discussion that followed, there was broad agreement that standards would be an important element in securing the benefits provided by electronic commerce and that the United Nations should play a leadership role in coordinating efforts in this regard with other multilateral institutions (such as ITU) and NGOs (such as the Internet Society).

22. An expert from the United Kingdom referred to the different types of trade transactions using electronic commerce technologies (goods versus services) and the need for Governments to understand that their role would also differ accordingly. In addition, different technologies would be required for different stages of a transaction.

23. It was generally agreed by participants that the level of discussions and the numerous issues covered during the Meeting reflected the importance of the topic. The approved recommendations should now be implemented.

III. ORGANIZATIONAL MATTERS

A. Convening of the Expert Meeting

1. In accordance with the agreed conclusions adopted by the Commission on Enterprise, Business Facilitation and Development at the closing meeting of its first session on 24 January 1997, 1/ the Expert Meeting on Telecommunications, Business Facilitation and Trade Efficiency was held at the Palais des Nations, Geneva, from 8 to 10 September 1997. The Meeting was opened on 8 September 1997 by Mr. Jean Gurunlian, Officer-in-Charge, Division for Services Infrastructure for Development and Trade Efficiency, UNCTAD.

B. Election of officers

(Agenda item 1)

2. At its opening meeting, the Expert Meeting elected the following officers to serve on its Bureau:

Chairman:	Mr. Anthony Hill	(Jamaica)
Vice-Chairman-cum-Rapporteur:	Mr. Richard Dale	(United Kingdom of Great Britain and Northern Ireland)

C. Adoption of the agenda

3. At the same meeting, the Expert Meeting adopted the provisional agenda circulated in TD/B/COM.3/EM.2/1. Accordingly, the agenda for the Meeting was as follows:

1. Election of officers
2. Adoption of the agenda
3. Telecommunications, business facilitation and trade efficiency
4. Adoption of the report.

1/ See Report of the Commission on Enterprise, Business Facilitation and Development on its first session TD/B/44/2-TD/B/COM.3/4), annex I, paras. 3-4.

D. Documentation

4. For its consideration of the substantive agenda item (item 3), the Expert Meeting had before it a background paper by the UNCTAD secretariat entitled "Telecommunications, business facilitation and trade efficiency: Some major implications of the global information infrastructure (GII) on trade and development" (TD/B/COM.3/EM.3/2).

E. Adoption of the report

5. At its closing meeting, on 10 September 1997, the Expert Meeting adopted its final recommendations (see section I above), agreed to incorporate the Chairman's summary into its report (see section II above), and authorized the Rapporteur to prepare the final report of the Meeting, under the authority of the Chairman.

Annex

ATTENDANCE */

1. Experts from the following States members of UNCTAD attended the meeting:

Algeria
Armenia
Bahrain
Belarus
Belgium
Benin
Brazil
Brunei Darussalam
Bulgaria
Burkina Faso
Cameroon
China
Colombia
Côte d'Ivoire
Cuba
Cyprus
Czech Republic
Democratic People's Republic of Korea
Ecuador
Egypt
El Salvador
Ethiopia
Finland
France
Germany
Ghana
Honduras
Hungary
India
Indonesia
Iran (Islamic Republic of)
Iraq
Ireland
Italy
Jamaica
Japan
Jordan
Kenya
Kyrgyzstan
Lebanon
Libyan Arab Jamahiriya
Luxembourg
Madagascar
Mauritania
Mauritius
Mexico
Morocco
Mozambique
Myanmar
Nepal
Nigeria
Norway
Pakistan
Panama
Paraguay
Philippines
Poland
Portugal
Republic of Korea
Romania
Russian Federation
Saudi Arabia
Singapore
Slovakia
South Africa
Spain
Sri Lanka
Sudan
Sweden
Switzerland
Syrian Arab Republic
Thailand
Togo
Trinidad and Tobago
Tunisia
Turkey
Uganda
United Arab Emirates
United Kingdom of Great Britain and Northern Ireland
United States of America
Uruguay
Venezuela
Viet Nam
Yemen

2. The Economic Commission for Europe, the Economic Commission for Africa, the United Nations Research Institute for Social Development, and the United Nations Development Programme were represented at the Meeting. The International Trade Centre UNCTAD/WTO was also represented at the meeting.

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*/ For the list of participants, see TD/B/COM.3/EM.3/INF.1

3. The following specialized agencies and related organization were represented at the meeting:

International Labour Organisation
International Monetary Fund
International Telecommunication Union
United Nations Industrial Development Organization

The World Trade Organization was also represented at the meeting.

4. The following intergovernmental organizations were represented at the meeting:

Arab Labour Organization
European Community
Inter-American Development Bank

5. The following non-governmental organizations were represented at the meeting:

General Category:

International Chamber of Commerce
World Federation of United Nations Associations
World Vision International

6. The following organizations, specially invited by the secretariat, attended the meeting:

Eastern Caribbean States Export Development Agency
Institut supérieur africain pour le développement de l'entreprise

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TRADE AND DEVELOPMENT BOARD
Commission on Enterprise, Business
Facilitation and Development
Second session,
Geneva, 1 December 1997
Item 2 of the provisional agenda

PROVISIONAL AGENDA AND ANNOTATIONS

I. PROVISIONAL AGENDA

1. Election of officers
2. Adoption of the agenda and organization of work
3. Enterprise: issues relating to an enterprise development strategy
4. Services infrastructure for development and trade efficiency assessment
5. Provisional agenda for the third session of the Commission
6. Other business
7. Adoption of the report of the Commission to the Trade and Development Board.

GE.97-51699

II. ANNOTATIONS TO THE PROVISIONAL AGENDA

Item 1 - Election of officers

1. Rule 18 of the rules of procedure of the Main Committees of the Trade and Development Board states that: "At the commencement of the first meeting of each regular session, the Committee shall elect a Chairman, five Vice-Chairmen and a Rapporteur from among the representatives of its members. These officers shall constitute the Bureau of the Committee. In electing the officers, due account shall be taken of the need to ensure an equitable geographical distribution". Moreover, rule 19 indicates that "the Bureau of the Committee shall consist of seven members, including four members from Groups A and C combined, two members from Group B and one member from Group D, referred to in the annex to General Assembly resolution 1995 (XIX) as amended". According to the cycle of rotation, the Chairman of the Commission shall be a representative of a State member from List A (Africa) and the Rapporteur from a state member of List A (Asia). The five Vice-Chairmen shall therefore be distributed as follows: 2 from List A and C combined; 2 from List B; and 1 from List D.

Item 2 - Adoption of the agenda and organization of work

2. The provisional agenda in section I above was approved by the Commission on Enterprise, Business Facilitation and Development at its first session (TD/B/44/2 - TD/B/COM.3/4, Annex IV).

Organization of work

3. As provided for in the UNCTAD calendar of meetings, the Commission will have available five working days, from 1 to 5 December 1997. At the first plenary meeting, on 1 December 1997, following the introduction of item 3, it is suggested that the rest of Monday, 1 December, and Tuesday, 2 December, be devoted to formal and informal discussions on item 3 of the provisional agenda.

4. On Wednesday, 3 December 1997, it is suggested that the Commission start consideration of item 4 of the provisional agenda. The consideration of this item, in both an informal and a formal setting, will continue until the morning of Friday, 5 December 1997.

5. The reports of expert meetings will be considered under the appropriate agenda items. The report of the Commission will be adopted on the afternoon of Friday, 5 December 1997.

Document	
TD/B/COM.3/8	Provisional agenda and annotations

Item 3 - Enterprise: issues relating to an enterprise development strategy

6. With a view to expediting substantive discussions at the Commission's session, the secretariat has prepared an issues paper entitled "Progress towards strategies for enterprise development" (TD/B/COM.3/9).

7. The paper responds to the request for further analytical work and policy research in areas related to enterprise development by the Commission at its first session.

8. Part A summarizes the main results of the Expert Meeting on Government and Private Sector Roles and Interaction in SME Development. The Commission is requested to provide further guidance with regard to the direction of and priorities in policy analysis, the exchange of national experiences,and technical assistance and advisory services. Part B presents a progress report of activities in the area of inter-firm cooperation so that the Commission can decide on areas of future work. This part draws upon a fuller overview of work already done in this field which was recommended at the first session of the Commission. Copies of that overview will be made available during the Commissions's session. Part C provides information on SME research institutions and support agencies which might lead to the establishment of a database with a view to achieving better coordination in SME research and related technical cooperation activities. Part D contains information on cooperation between UNCTAD and other United Nations agencies and international organizations in the area of enterprise development.

9. Following the decision made at the first session of the Commission, the Expert Meeting on Government and Private Sector Roles and Interactions in SME development was held from 23 to 25 July 1997. The report of the Expert Meeting is contained in document TD/B/COM.3/6-TD/B/COM.3/EM.2/3. In taking note of the report of the Expert Meeting, the Commission may wish to endorse the recommendations contained therein, in accordance with paragraph 114 of "A partnership for Growth and Development".

Documents

TD/B/COM.3/9	"Progress towards strategies for enterprise development".
TD/B/COM.3/6- TD/B/COM.3/EM.2/3	Report of the Expert Meeting on Government and Private Sector Roles and Interactions in SME Development

Item 4 — Services infrastructure for development and trade efficiency assessment

10. Responding to the requests made by UNCTAD IX and by the Commission at its first session, the secretariat has prepared a paper entitled "Services infrastructure for development and trade efficiency" (TD/B/COM.3/10).

11. The paper is divided into two sections. The first is devoted to an issue which has not yet been addressed by the Commission, namely that of "new services for development". It presents a progress report on the activities initiated by the UNCTAD secretariat to contribute to the development of infrastructure services specifically designed to assist the informal sector and to promote the development of micro-enterprises. It focuses on activities related to micro-credit, an area where work has particularly advanced. The second section addresses the four topics on which the Commission expressed interest in receiving information and practical proposals, namely: (1) trade efficiency strategy; (2) legal dimensions of the Trade Point programme; (3) inter-institutional cooperation in the trade efficiency area; and (4) trade efficiency assessment. Because of their substantive implications, points (1) and (4) are addressed in greater detail. Regarding the trade efficiency strategy, the analytical and policy-oriented bases of the trade efficiency programme are recalled and the practical steps of a result-oriented strategy are illustrated by two examples, namely the ASYCUDA programme and the Trade Point programme. A Trade Efficiency Assessment Methodology (TEAM) is proposed in an addendum to the document (TD/B/COM.3/10/Add.1).

12. At the first session of the Commission, a decision was made to convene expert meetings, and in this context, the Expert Meeting on the Use of Information Technologies to Make Transit Arrangements More Effective was held from 5 to 7 May 1997, while the Expert Meeting on Telecommunications, Business Facilitation and Trade Efficiency was held from 8 to 10 September 1997. The

reports of the two Expert Meetings are contained in documents TD/B/COM.3/5-TD/B/COM.3/EM.1/3 and TD/B/COM.3/7-TD/B/COM.3/EM.3/3 respectively. In taking note of the reports of the Expert Meetings, the Commission may wish to endorse the recommendations contained therein, in accordance with paragraph 114 of "A partnership for Growth and Development".

Documents

TD/B/COM.3/10	"Services infrastructure for development and Trade Efficiency"
TD/B/COM.3/10/Add.1	"Proposal for a Trade Efficiency Assessment Methodology (TEAM)"
TD/B/COM.3/5 - TD/B/COM.3/EM.1/3	Report of the Expert Meeting on the Use of Information Technologies to Make Transit Arrangements More Effective
TD/B/COM.3/7 - TD/B/COM.3/EM.3/3	Report of the Expert Meeting on Telecommunications, Business Facilitation and Trade Efficiency.

Item 5 - Provisional agenda for the third session of the Commission

13. The Commission may wish to establish the provisional agenda for its third session on the basis of the deliberation during its second session. In the UNCTAD indicative calender of meetings for 1998, the third session of the Commission on Enterprise, Business Facilitation and Development is tentatively scheduled to take place in November 1998.

Item 6 - Other business

Item 7 - Adoption of the report of the Commission to the Trade and Development Board.

14. The report of the Commission on its second session will be considered by the Trade and Development Board.

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PROGRESS TOWARDS STRATEGIES FOR ENTERPRISE DEVELOPMENT

Note by the UNCTAD secretariat

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INTRODUCTION

1. The Commission on Enterprise, Business Facilitation and Development adopted agreed conclusions at its first session which contained a number of elements for the future work of the Commission. 1/ The Commission recognized the importance for developing countries, in particular least developed countries, and economies in transition, to develop enterprise strategies paying attention to such factors as:

- The changing and heterogeneous nature of enterprises and of international competition;
- The complex nature of the enterprise development process;
- The importance of a coherent policy environment; and
- The importance of the role of the State in creating an effective enabling environment and in facilitating an enterprise culture, market networks conducive to entrepreneurship, innovation, and inter-firm cooperation, both internally and internationally.

2. The Commission also recognized that further analytical work and policy research within UNCTAD would be needed in particular areas and took note of the proposals made in this regard, including:

- The respective roles of government and the private sector and the interactions between them in creating a coherent policy framework and setting up effective support measures and structures for the development of small and medium-sized enterprises (SMEs) and micro-enterprises;
- The possible value as well as the ways and means of promoting and facilitating effective inter-firm cooperation;
- The development of innovation, entrepreneurial and technological capabilities as essential inputs for the development and growth of enterprises; and
- The short and long-term impacts of macroeconomic reform and liberalization on the development and growth of enterprises.

3. The Commission made specific recommendations on steps to be taken in the immediate future. The present note seeks to provide information on the implementation of these recommendations. In particular, Part A describes the outcome of the Expert Meeting on Government and Private Sector Roles and Interactions in SME Development. The Commission is asked to react to its findings and recommendations. Part B presents in a succinct form a progress report of activities in the area of inter-firm cooperation so that the Commission can decide on future work. Part C deals with information on research bodies and other support agencies working in the area of enterprise development which might be constituted into a database to facilitate both better research and project design. Lastly, Part D contains information on cooperation between UNCTAD and other United Nations agencies and international

organizations in the area of enterprise development. Most international and bilateral organizations promoting enterprise development have been affected by budget cuts. Cooperation among organizations is thus increasingly being used to reduce duplication, facilitate synergy and complement individual programme activities.

A. Expert Meeting on Government and Private Sector Roles and Interactions in Small and Medium-Sized Enterprise Development

1. Background

4. Enterprise development is a dynamic and complex process, influenced by a large number of factors both at the macroeconomic level and at the level of the individual enterprise. Successful enterprise development is affected by a conducive economic environment in terms of the macroeconomic, regulatory and legal frameworks, the structural characteristics of the national economy, the degree of market development, the institutional framework, the infrastructural and human resource base and the quality and coherence of government policies. Similarly, entrepreneurs have to tackle many problems while they pass through different development stages from enterprise start-up to growth and expansion.

5. Consequently, policy makers face common challenges in promoting and strengthening local enterprises, although the specificities of enterprise development may vary from country to country. The discussion at the first session of the Commission on Enterprise, Business Facilitation and Development highlighted several questions or sets of issues that are common to many countries and which appear to be of importance for enterprise development. These issues include the role of the State in creating an enabling macroeconomic environment for enterprise development, the promotion of a policy dialogue between the Government and the enterprise sector, the development of domestic productive capacities, the stimulation of enterprise development through the removal of trade and technical barriers and the facilitation of transfer of technology, and issues related to the graduation of enterprises from the informal to the formal sector. 2/

6. Many of the issues raised by the Commission lend themselves to discussion among experts in intergovernmental bodies with a view to formulating concrete recommendations for the development of enterprises, particularly SMEs. Pursuant to the Commission's decision at its first session, the UNCTAD secretariat organized an expert meeting on "the respective roles of government and the private sector, including NGOs, and the interactions between them in creating a coherent policy framework and setting up effective support measures and structures for the development of SMEs and micro-enterprises, in particular those in least developed countries". 3/

7. The Expert Meeting took place in Geneva from 23 to 25 July 1997. Some 110 experts from 65 countries, as well as representatives from several United Nations agencies, other international bodies and NGOs, participated in the Meeting. The majority of the experts came from civil society and represented business associations, employers' federations, SME support agencies and other private sector organizations that have a stake in the development of SMEs. Stressing the important economic and social

contributions SMEs can make to the effective functioning of the market economy, as well as to employment generation, growth and development, the experts adopted a set of recommendations to be submitted to the Commission on Enterprise, Business Facilitation and Development. 4/

8. The deliberations at the expert meeting focused on four major issues: (i) channels for Government-private sector dialogue; (ii) policy coherence for SME development; (iii) SME support mechanisms and agencies; and (iv) the role of professional organizations in Government-private sector dialogue and SME support. A few key questions raised and lessons learnt from the discussions are presented in the following sections.

2. Main points of the discussion

(a) Channels for Government-private sector dialogue

9. Globalization and liberalization, facilitated by rapid progress in information and communications technologies, are the dominant trends in the global economy. Their economic impact radically changes the relationship between the Government and the private sector. As a result, economies have become more market-oriented and enterprises play an increasingly important role in the development process. Conversely, the role of the Government is progressively shifting from direct economic intervention towards the creation of an enabling environment to facilitate the establishment and expansion of private enterprises.

10. The redefinition of the role of the Government in economic development includes, inter alia, the need for a meaningful and substantive dialogue between the Government and the private sector on policies, measures and actions for the promotion of small and medium-sized enterprises. In this context, intergovernmental discussion and the exchange of national experiences ranged from straightforward issues, such as the form and objectives of government-private sector dialogue and the need for a balanced representation that also includes SMEs, to more complex questions, such as which mechanisms have proved to be successful, what results have been achieved, why have some forms and structures been successful in some countries while they did not work in others, what are the lessons that may be drawn regarding the effectiveness of such dialogue and, most importantly, can successful experiences be replicated when national conditions differ?

11. During the Expert Meeting, these issues were explored and some common positions were reached. There was a broad consensus on the need for government-private sector interaction to promote enterprise development, as well as on the need for the Government and the private sector to work in partnership. In fact, in several countries, formal mechanisms of government-private sector interaction have been in existence for long periods and proved their usefulness.

12. The diverse arrangements for conducting this dialogue include consultative councils, government-private sector boards, joint government-private sector seminars, workshops, and other government-private sector forums. In Mauritius, for example, a three-tier system has emerged over time which is based on sectoral associations, core national bodies,

including chambers of commerce and professional associations, and a Joint Economic Council at the apex acting as a spokesman of the private sector in the highest policy-making bodies. During regular and well prepared meetings, including with senior ministers and the prime minister's office, the broad parameters for government-business cooperation are established, thereby creating transparency and a climate of confidence and trust. In Hungary, efforts are under way to create an Entrepreneurship Development Council on which representatives from ministries, chambers of commerce, business associations and individual experts will serve with a view to advising the Government on creating enabling commercial and legal frameworks for SME development. In Romania, the consultative councils will also invite foreign investors to participate in their deliberations. Through this exchange of experiences it became clear that in order to achieve its objectives, the government-private sector dialogue needs to be not only structured but also transparent and continuous, while its agenda should be practical and operational.

13. Experts also stressed that such a policy dialogue needs to be conducted at all levels of government, as well as by economic sectors. The discussions highlighted the need for interaction particularly at the local level, where the implementation of enterprise policies and the delivery of support services take place.

14. Another key lesson that may be drawn from the discussions is the need for a balanced representation of all sectors of the business community, including SMEs, in the policy dialogue. All types of SMEs need to be represented so that they can constitute the true voice of small business which can easily be identified by the Government. A dialogue that is dominated by large firms, which often also have strong political connections, risks losing sight of the specific needs and interests of SMEs. In this context, the pros and cons of umbrella organizations vs. specialized organizations for SMEs need to be taken into account. Experiences in countries such as Egypt and Australia have pointed to possible conflicts of interest between large firms and SMEs within umbrella organizations. Based on such lessons, the foundation of genuine and effective SME associations appears to be advisable, and this would also allow such associations to strengthen their bargaining power and to maintain their integrity vis-à-vis their constituencies. Other suggestions highlighted the potential advantages of SME groupings based on specific interest, economic sectors or geographical location over umbrella organizations. On the other hand, there have also been experiences showing that SMEs constitute the overwhelming majority in umbrella business organizations. This could facilitate the presentation of issues relevant to SMEs in the government-private sector dialogue. In other instances SMEs have been able to establish effective subcommittees within umbrella organizations. The advantage of remaining in an umbrella organization is the ability to harmonize opinions, take joint action and avoid presenting the Government with conflicting views on issues isolated from the rest of the business community.

(b) Policy coherence for SME development

15. Until recently there has been a lack of awareness of the need for coherent policies for SME development. An appropriate national policy framework for SME development would encompass coherence at several levels. At

the first session of the Commission, discussion of policy coherence focused on the macro and micro levels. However, policy coherence is needed at other levels or stages, including at the federal and local levels and at the national and international level and during policy design and implementation. However, due to the complexities involved, efforts to design such a comprehensive national policy framework have rarely been attempted. The experts identified the different levels at which policy coherence needs to be achieved and exchanged experiences on measures and structures for attaining it.

16. While a regular and effective government-private sector dialogue is essential for the creation of a coherent policy framework for enterprise and SME development, policy coherence implies not only the design of coherent policies but also clarity and consistency in their implementation. However, this is a complex and comprehensive process, which needs to involve both the Government and the private sector.

17. Policy coherence implies the creation of a favourable overall policy framework for the development of all enterprises and entrepreneurship. Such a framework contributes to the fostering of confidence among economic actors, including foreign investors, in the management and evolution of the economy and reduces commercial, financial or investment risks associated with unexpected or excessive tax, interest-rate or currency movements. Such conditions, together with fiscal incentives and financial market regulations, will help to mobilize savings, develop financial institutions and markets and encourage investment. Thus, policies which have a bearing on entrepreneurship and the development of enterprises, such as policies relating to macroeconomic stabilization and functional issues such as taxation and business-related regulations, will need to be consistent with sectoral and firm-level policies to develop new capacity or to achieve and maintain firm-level competitiveness.

18. The achievement of policy coherence in the interest of enterprise development may sometimes lead to conflicts with other policy goals, thus distracting from the principal objective of SME development. For example, local measures for enterprise development may not be in line with national or regional development strategies and vice versa, and austerity measures that may be necessary to maintain macroeconomic stability have an adverse effect on the availability of credit facilities for enterprises. Similarly, the provision of government-funded support services to enterprises may compromise, at least temporarily, budgetary discipline. Such conflicts could be resolved by careful policy analysis and policy design. For instance, policies that entail additional spending on SME development can be justified by additional tax revenue that would be generated by a flourishing enterprise sector. In this sense, the Government of Egypt is planning to grant tax exemptions to banks which provide loans to SMEs.

19. Policy coherence needs to occur in several other main areas, such as between and among public and private sector support services and programmes and between government authorities involved in SME development at different levels. Moreover, in creating a coherent policy framework for SME development, Governments also need to take into account obligations emanating from binding international agreements that have an impact on the nature and the design of enterprise policies and support measures.

(c) SME support mechanisms and agencies

20. There is broad agreement on the need for support mechanisms and business development services for the promotion of SMEs. While there is much information on the types of support agencies and services established, there is little knowledge of how effectively they function. In addition, there is the issue of "subsidiarity" or who can do what best at different levels of government and among various service providers. What mechanisms have been developed to take into account the special needs of women and emerging entrepreneurs? Some Governments have established SME support agencies within government structures - what are their main functions? How effective have these agencies been as channels for a two-way flow of information between government and SMEs? What are the pros and cons of a centralized agency versus a multi-agency approach? What other structures might effectively serve such a purpose? Since the provision of development services to enterprises can be costly, mechanisms for the long-term financial sustainability of such services and related agencies are increasingly important. What experience has been acquired concerning, for example, user fees, scaled fees, voucher programmes and other cost-recovering mechanisms? Since various support services can also be provided on a commercial basis, what is the role of the private sector in providing such services? In addressing these questions, the experts arrived at a number of valuable conclusions.

21. SMEs need a variety of services and assistance for their development, both during the start-up phase and during later expansion phases. In addition to financial services specifically tailored to the needs of SMEs, they also need assistance in areas such as management and skill development, technology transfer, counselling, marketing, and collecting and assessing market information. Support services can be, and in actual practice are, provided by both the public and the private sector.

22. While many SME support services, including leasing of equipment, legal and accounting services, marketing, etc., could be commercialized, the Government retains a prominent role in the provision of business support programmes and services, particularly for business start-ups, as well as with regard to financial support, contact services, general advice and information, and basic managerial and vocational training. However, even for the latter services, user fees may be charged to cover fully or partially their cost, thus prompting market reaction signalling the usefulness of these services and contributing to the sustainability of their delivery.

23. Whether business support should be demand- or supply-driven was discussed in the context of improved support service mechanisms. The consensus was for demand-driven support, leaving room, however, for supply-driven support in situations where enterprises are not aware or informed about existing programmes or the potential benefits that could derive therefrom.

24. In addition to a more demand-driven approach in SME support agencies and programmes, comparative advantages of different service providers could be better exploited by strictly adhering to the principle of subsidiarity, which would determine the role of SME support agencies on the basis "who can do what best". Horizontal (or functional) subsidiarity would help define a new

division of labour in providing support services between the Government (i.e. the administration, as well as government agencies and institutions), civil society, including non-profit organizations, foundations, membership organizations and other NGOs, and individual enterprises, including their self-help organizations. Vertical (or territorial) subsidiarity could contribute to a better demarcation of responsibilities, and hence accountability, of support agencies at the central, regional and local levels.

25. Experts stressed the importance of the critical role of professional associations for SME development. Professional associations can act as both efficient providers of specialized support services and as an effective lobby for SME interests. The role of professional organizations may particularly increase when government intervention diminishes over time with the strengthening of private support agencies.

3. Implications for future work

26. The Expert Meeting was part of a longer-term intergovernmental process addressing issues related to the formulation and implementation of enterprise development strategies. The experts adopted detailed recommendations for Governments and for activities undertaken within UNCTAD. 5/ The recommendations to Governments could lead to concrete action on their part to promote SME development. Concerning recommendations to UNCTAD, the secretariat is currently studying the proposals made. In order to sharpen the focus of such deliberations at UNCTAD, further consideration and guidance are needed, particularly with regard to the direction of and priorities in policy analysis, the exchange of national experiences, and related technical assistance and advisory services.

27. An issue that both delegates and experts at the first meeting of the Commission and at the Expert Meeting recurrently felt would merit further examination was the possible value as well as the ways and means of promoting and facilitating effective inter-firm cooperation, including clustering, networking and technology partnerships, between and among SMEs, as well as with larger enterprises. The next section of this paper attempts to highlight relevant aspects which have emerged from the secretariat's preliminary overview of the role of networking, clustering and partnerships in SME development.

B. Progress report on activities in the area of inter-firm cooperation

1. Background

28. The Commission at its first session recognized that further analytical work and policy research within UNCTAD will be needed on the ways and means of promoting and facilitating effective inter-firm cooperation, including clustering, networking and technology partnership, both domestically and internationally, as an instrument in fostering the development and competitiveness of enterprises. The Commission requested that the secretariat begin analytical work and policy research on this item and recommended that it start with an overview of the work already done. 6/ The following sections contain in a succinct form the main findings of the overview.

2. Global trends

29. International collaboration agreements among firms have become increasingly prominent. This collaboration has taken different forms in different contexts, ranging from strategic alliances to technology partnerships, growth triangles, incubators, clustering, "knowledge networks", licensing and franchising. Inter-firm cooperation is undertaken for a variety of purposes: sharing know-how, joint action, building technological capacities, taking advantage of local marketing skills, decentralizing to be closer to local markets, building user-supplier networks, and taking advantage of "knowledge spillovers" through spatial proximity. What is new is the speed at which inter-firm cooperation has increased since the 1980s and the degree to which this has happened on a basis that is more and more cross-national in nature. This development is particularly significant in industrialized countries and advanced developing countries. According to an OECD study, "most of the industrialized countries are already deeply enmeshed in globalization and are taking steps both to maximize its benefits and to ease adjustments it demands. Enterprises themselves take a leading role in the integration process. There are, however, differences in the ability of developing countries' enterprises to face the challenges of global economic integration". 7/ Thus the firms from the so-called Triad countries (the United States, the European Union and Japan) account for a majority of the agreements concluded during the period 1990-1995. Developing country firms are, however, also increasingly participating in such agreements. Their share in international inter-firm alliances, increased from about 440 in 1990 to about 2,120 in 1995. Over the same period, however, the share of Central and Eastern European firms decreased by half. 8/

30. The significant growth that has taken place in inter-firm alliances is particularly notable in the area of information technology (IT). Newly industrialized countries and transitional economies account for a major proportion of the IT alliances involving non-OECD countries. The majority of alliances of non-OECD country firms have involved the generation or exchange of technology, understood to include tacit knowledge concerning best practices in management, marketing and the organization of production, as well as knowledge embodied in software, machinery and equipment, and are in the areas of telecommunications and computers. Contractual agreements, joint ventures and equity investments are the predominant forms of these alliances. Some firms from developing countries have gained significant benefits from these strategic partnerships, not only in terms of accessing more advanced technologies but also in strengthening their capacity to develop such technologies on their own. Firms from industrialized countries are interested in entering into such alliances in order to gain access to markets, low-cost production sites and low-cost technology development sites in the developing world, as well as to spread the costs and risks of innovation.

3. Forms of inter-firm cooperation

31. *Clusters* of firms may or may not involve formal partnerships between spatially proximate firms. They are thought to facilitate access to externalities/public goods such as water, electricity, and the right kind of labour force. Other effects of clustering have been identified, for example "emulation", "tacit knowledge transfer" and lower transaction costs as trust

builds up and/or through the ease of transaction that comes from "social proximity". 9/ A cluster, grouping a number of small enterprises, can have two organizational objectives. The first is a geographical one; having a cluster of enterprises within close proximity facilitates the production process, especially in cases where the firms are producing the same goods, by allowing for a strategy of labour division. The second objective and possible end-result of this cooperation is that firms producing the same goods and clustered together may compete with larger enterprises, for example, in a consortium. Clusters characterized by this division of labour can be defined as *industrial districts*, which are locally coordinated and articulated economic systems, normally specializing in one product and supported by local government authorities through policy dialogues and support structures. Thus, firms in such clusters benefit from both the division of labour and the externalities of spatial agglomeration. 10/ Most research on clustering has dealt with clusters of various sorts in developed countries. Far less is known about existing clusters in the developing world, for example Nnewi (Nigeria), Bangalore (India) or Minas Gerais (Brazil), or of the conditions that have made it possible to sustain the growth of innovativeness of firms there.

32. *Networking* is most often used to describe arms-length interactions between firms, such as international production or distribution networks. It includes interaction across a value chain without the necessity of having either formal links or equity participation and does not require proximity. Both networks of small firms and international production networks organized through subcontracting and/or foreign direct investment (FDI) by transnational corporations (TNCs) are included in this category. These networks enable firms to share risks and costs and to access markets. Reduction in production and transaction costs, as well as considerations of market penetration and market power, are thus key elements in the firm's decisional matrix. Networking links small, medium and large enterprises by an exchange of information (for example of a technological or marketing nature), commercial relationships (between suppliers and customers) and competition relationships in order to develop a responsive organization or production system. The main characteristic of a network is that it does not require geographical proximity to be efficient: it can link firms whose activities are distributed around the world. Yet the extent to which networking is or can become an effective means of promoting technology transfer and capacity-building in the South is little known. 11/

33. Inter-firm agreements taking the form of *strategic partnerships*, with or without equity, exist at all stages in the value chain, from R & D through production to marketing/distribution. Traditionally such agreements were one-way - as in licensing agreements or franchising. More recently, two-way partnerships have also emerged. They are designated "two-way" because they involve knowledge production and sharing as in R & D partnerships or modularized production where those producing the modules share in the design of component parts of the final product or joint marketing. Partnerships of this sort involve risk and cost sharing and considerations of market access and power. They also imply mutuality, in the sense that beneficial contributions emanate from both partners, meaning that they have something important to offer to each other. They have the advantage of ensuring greater flexibility to respond to change and stimulate innovation through

interaction. 12/ Data from UNCTAD's World Investment Report 1997 show increased participation by firms from developing countries in strategic partnering activity. As this is a very recent phenomenon, little work has as yet been done on the factors encouraging the formation of such alliances and the benefits derived from them. The contribution of investment, R & D, innovation and fiscal policies to this process among firms in developing countries and between firms in the North and the South is also under-researched.

4. Policy issues

34. Inter-firm cooperation takes place largely due to the initiative of firms themselves, driven by market forces. However, such cooperation becomes viable only when the *policy environment* is conducive. This section deals with policies that foster and sustain inter-firm cooperation in different forms (e.g. clusters, networks, and strategic partnerships). Such policies become effective in stimulating the benefits of inter-firm cooperation when enacted and implemented at different levels in a coordinated manner. These different but interlinked and often overlapping levels are: (i) the Government (macro level); (ii) intermediaries (meso-level) e.g. chambers of commerce and industry, regional governments, universities, etc.; and (iii) enterprises (micro level).

35. When discussing policies or policy implications of inter-firm cooperation, the most important factors are the consistency and stability of policies and the Government's decision to retain the chosen policy framework. Sudden and unforeseen changes that are inconsistent with past policies can be a threat to decisions which need a long-term perspective. The *macroeconomic framework* has a significant effect on local partners as well as foreign enterprises in decisions relating to inter-firm cooperation and industrial development. It is possible to claim that enterprises with already satisfactory levels of managerial, marketing and technological capabilities are attractive partners for inter-firm cooperation and, in turn, they are likely to be able to benefit more from the opportunities that collaboration offers. 13/ Government policies may therefore focus on building up such critical capabilities among domestic enterprises, and such policies include the provision of incubator facilities, as well as financial and other guarantees on behalf of domestic enterprises seeking to participate in global alliances.

36. Macroeconomic policies often influence the behaviour of enterprises through their effects at the *meso-level* of specific industries' regions and areas. Various types of institutions, situated at an intermediate level between the macroeconomic framework and individual enterprises can contribute to the creation of inter-firm cooperation by assisting in bringing potential partners together, disseminating information, and building the mutual confidence necessary for any agreement. Institutions at the meso-level, such as trade associations and regional governments, play an important role in many nations in funding and even creating specialized research institutions. Other institutions that might play an important meso-economic role and promote strategic partnerships are non-governmental organizations, acting as an

institutional mechanism to increase the level of mutual confidence among partners and at the same time supplying a variety of real services, training and technical assistance. 14/

37. Under today's circumstances, where technologies are changing rapidly and shortening product life cycles, innovation has become a key competitive strength. However, the development of new technologies increasingly requires diversified inputs from several different disciplines. It is becoming difficult for a single firm to muster all the resources required to be innovative and competitive in the global markets, and firms are therefore aligning themselves with others, including competitors, with complementary capabilities or resources. Such complementary resources could be in innovation, organizational or marketing knowledge, research and development, and finance. Hence, to be able to participate in inter-firm alliances, firms need to possess some initial strength. Provision of venture capital to newly emerging innovative firms may also attract international firms to collaborate with domestic firms.

5. Need for research and policy dialogue

38. As UNCTAD's overview indicates, most of the research conducted so far on inter-firm cooperation (clusters, networks and strategic partnerships) has been carried out from the perspective of developed countries. It would now be important to bring in the perspective of developing countries and transition economies through studies of clusters (industrial districts/technology parks), networks and strategic partnerships (between firms in the same country, as well as between domestic and foreign firms) in developing countries and transition economies to understand the driving forces, processes and results of such inter-firm cooperation.

39. In this respect it would be useful if the experiences gained by firms involved in inter-firm cooperation, networking and clustering were discussed and shared among interested actors and practitioners from different countries, including a wider range of firms as well as representatives of Governments from developing countries and countries in transition, with a view to promoting the exchange of experience and furthering the development of this cooperation as part and parcel of national innovation systems.

C. Information on research bodies and other support agencies working in the area of enterprise development

40. The Commission on Enterprise, Business Facilitation and Development, at its first session, requested a background note on information available on research bodies and other support institutions working in the area of enterprise development that might be constituted into a database, accessible, *inter alia*, via Internet. Such information could facilitate better research and better project design. Information was solicited from 19 United Nations organizations and agencies and other organizations engaged in enterprise development. The most relevant databases are described below.

International Labour Organization

41. Information on ILO activities, publications and databases is accessible through the Internet at the address http://www.ilo.org. ILO has two databases of particular relevance to enterprise development which are managed by its Enterprise and Co-operative Development Department.

42. **INSTEAD** is the Information Service on Technological Alternatives for Development, which disseminates information on food processing, agricultural tools and implements, building materials, energy, and handicrafts in wood, leather, textiles, and metal, etc. Information may take the form of ILO technical publications, bibliographies, catalogues, reports, articles, and lists of addresses of institutions and of equipment suppliers or manufacturers, and is provided free of charge to developing countries. INSTEAD is a subset of LABORDOC, which is a database of the majority of the ILO library's holdings and those of the ILO's specialized documentation centres.

43. **INTERMAN** is the International Management Development Network, closely connected with ILO's Entrepreneurship and Management Development Branch. INTERMAN links leading management development centres and enterprises in over 72 countries, including all major regional associations worldwide. Among other things, it promotes the exchange of management experience across regions, as well as the development of strong management institutions in LDCs. Membership is open to private and public enterprises and management development institutions, schools and centres, as well as development agencies, foundations, etc.

World Bank

44. The World Bank has several databases relevant to enterprise development and is also one of the sponsors of the Enterprise Development Website (ENTERWeb).

45. **ENTERWeb** is a master index of databases and websites relating to enterprise development at the address http://www.enterweb.org. The site is sponsored by a number of organizations, including the World Bank. It is an annotated meta-index and information clearing house on enterprise development, business, finance, international trade and the global economy. Its main focus is on micro, small and medium-scale enterprises, cooperatives, and community economic development, in both developed and developing countries. ENTERWeb lists and rates Internet resources in these areas, and complements search engines by providing short cuts in identifying important sources of information.

46. The primary objective of ENTERWeb is to provide to enterprise development practitioners, policy makers, academics and small business owners an annotated list of Internet resources giving substantive information on enterprise development topics, including finance and credit, technology and technology transfer, training and advisory services, entrepreneurship development and incubators, community economic development, education and

vocational training, marketing and trade, donor activities, discussion groups, international business research, women and enterprises, conferences and seminars, etc.

47. **Fundline,** at the address http://www.worldbank.org/html/fpd/psd/fundline, is a database managed by the World Bank to facilitate communication between potential equity investors and enterprises in Eastern Europe and the former Soviet Union. Fundline includes portfolio investment funds, private equity funds and companies, venture capital funds, mutual funds and other equity vehicles.

48. **TechNet**, at the site http://www.worldbank.org/html/fpd/technet/indicato.htm, lists a set of science and technology indicators. TechNet is designed to encourage understanding and promote the use of science, technology and information in development.

International Trade Centre UNCTAD/WTO

49. The ITC prepares and publishes the *World Directory of Trade Promotion Organizations and Other Foreign Trade Bodies*, which is intended to provide developing countries with a reference book of useful addresses that will help establish contacts with, and encourage a direct flow of information among, bodies responsible for facilitating and promoting international trade. The Directory is also available on diskette.

50. The ITC's recently launched International Competitiveness Programme for SMEs (ICPS) will meet the technical assistance needs of SMEs in developing countries and economies in transition through the Network of National Multiplier Organizations in the private and public sectors. Typical multiplier organizations are trade training institutions, chambers of commerce, business associations, SME development agencies, export promotion councils, trade points, private sector consulting and training agencies and development finance institutions. The Programme will work closely with these multiplier organizations by putting in place an interactive network of agencies through which a number of technical assistance products and services such as learning tools, diagnostic tools and practical guides will be disseminated directly or indirectly to enterprises in the interested country or region. The network will be open to participation by all interested agencies subject to a minimum assessed level of competence, commitment and credibility.

Future action on databases and networking

51. At the Expert Meeting on Government and Private Sector Roles and Interactions in SME Development, the experts requested that UNCTAD set up a network of institutions and individuals who had attended the meeting. It would be possible to create an interactive website where UNCTAD's Enterprise Development Branch could provide updates on:

- names and addresses of experts working in SME development;

- UNCTAD's activities and programmes on SME development, including relevant activities of the Commission on Science and Technology for Development.

52. The website could also provide a forum for continuous discussion of enterprise development strategies, including issues raised during various expert meetings requested by the Commission. From the review of existing databases, it appears that there is no need for UNCTAD to create another "general" database on SMEs. However, a directory of such databases would be useful and could also be included on the web.

D. Cooperation between UNCTAD and other United Nations agencies and international organizations in the area of enterprise development

1. General

53. Enterprise development is an area in which a number of United Nations agencies are actively supporting developing countries through policy advice and technical cooperation. For a number of years UNCTAD's Enterprise Development Branch has been coordinating its technical cooperation activities in enterprise development with ILO's Entrepreneurship and Management Development Branch and UNIDO's Small and Medium Enterprises Branch, as well as cooperating closely with the Department for Development Support and Management Services (now part of the Department of Economic and Social Affairs) in the joint implementation of the EMPRETEC Programme. Inter-agency cooperation has become a notable feature of UNCTAD activities for the promotion of SMEs, entrepreneurship and private sector development and diversification. During the past year UNCTAD has had extensive contacts with a number of other international organizations working in the field of enterprise development. These contacts have taken three main forms: information sharing, coordination and joint activities and/or projects. In most cases the organizations concerned have concentrated on cooperation benefiting LDCs. Such cooperation is crucial if technical assistance is to be effective, given the reduced resources available to most international organizations. Joint projects reduce resource demands on each organization while producing useful synergies and avoiding duplication.

2. Information sharing and coordination

54. Briefing meetings have been carried out with: ASEAN, CARICOM, DESA, ECA, ECE, ESCAP, EU, IDB, ILO, ITC, OAS, OECD, UNDP, UNIDO, and the World Bank. At these meetings, programmes were described in detail, views exchanged on the relevant issues, areas of mutual interest identified and joint activities planned. During the year, a number of meetings were held on SME development, and UNCTAD attended those meetings held in Geneva and Paris (ILO Annual Meeting, Committee of Donor Agencies for SME Development, OECD Conference on Women Entrepreneurs in Small and Medium Enterprises); UNCTAD also attended and presented a paper at the Tenth International Conference of Small and Medium Enterprises, Florida, sponsored by the World Association for Small and Medium Enterprises. Budgetary constraints, however, prevented UNCTAD from attending other meetings outside Geneva.

3. Joint activities

55. There have been a number of joint activities, such as joint missions, joint workshops, and field projects:

- ECE: A joint ECE/UNCTAD Task Force has been created to coordinate activities in enterprise development. The Task Force has decided to focus its cooperation on countries in transition such as Albania, the former Yugoslav Republic of Macedonia and southern CIS countries. ECE representatives participated at the recent Expert Meeting on Government and Private Sector Roles and Interactions in SME Development.

- ILO: The June Annual Meeting focused on SMEs and employment creation. The Chairperson of the session dealing with this topic also served as an invited resource person for the Expert Meeting on Government and Private Sector Roles and Interactions in SME Development, thus ensuring that there was a bridge between these two events. ILO also prepared a paper for the Expert Meeting and participated actively in the discussions, particularly on donor coordination.

- UNIDO: A joint communiqué on cooperation agreed between the two organizations was issued on 3 April 1996. Periodic meetings have since been held on more effective coordination. Concrete work undertaken by the two organizations includes a pilot project to prepare country profiles for investment in selected African countries; organizing international business conferences for African countries; and seeking to strengthen ties between private sectors in African countries and other regions to disseminate scientific and technical information. Cooperation has been extended to investment guides for LDCs, and investment policy reviews have been conducted jointly. In the area of investment promotion, UNIDO and UNCTAD were the joint hosts for an international conference on privatization and investment held in Geneva in which 200 businessmen participated along with Uzbek government officials. UNCTAD and UNIDO are jointly assisting the Uzbek Foreign Investment Agency at present. UNCTAD is also currently helping UNIDO prepare for the second investment forum for Uzbekistan to be held in Vienna later this year. UNIDO participated in both the recent meetings of WAIPA and in the expert meeting on SMEs mentioned above.

- OECD: UNCTAD recently participated in the OECD meeting on women entrepreneurs. Active cooperation in the field of accounting for enterprise development in the CIS has been going on since 1991; this year UNCTAD provided the background documents and resource persons on accounting for non-bank financial institutions (pension funds, insurance funds, investment funds) for the annual meeting of government representatives in charge of setting accounting standards. At the request of OECD, UNCTAD has created a working group on audit questions and has organized two meetings of this group. This fall, UNCTAD will provide the background documents

on accounting for SMEs for the annual meeting of CIS standard-setters. UNCTAD also writes a column on international coordination in this field for the OECD newsletter, "Accounting Information Network in the CIS".

- UNDP: UNDP has funded enterprise projects in the area of accounting reform in Azerbaijan and Uzbekistan.

- Committee of Donor Agencies for Small Enterprise Development: UNCTAD has been an active participant in the Committee of Donor Agencies for SME Development and attended its April session. Members of the Committee also attended UNCTAD's Expert Meeting on SMEs. Coordination among donors and international organizations was discussed at the Expert Meeting, and the Committee has recently written guidelines for donor-funded interventions in the area of business development services.

- European Commission: The Secretary-General of UNCTAD has maintained constant contact with the EC. The EC has become a major donor for UNCTAD's technical cooperation activities, including activities in the area of enterprise development.

4. Technical cooperation

56. UNCTAD's EMPRETEC programme on entrepreneurship and small and medium-scale enterprise development aims at stimulating employment-creating investment, technology transfer and export diversification through the training of indigenous entrepreneurs and the development of innovative SMEs. The programme, jointly implemented with UNDESA, is presently operational in 12 Latin American and African countries and has for many years cooperated with UNDP. In recognition of this successful collaboration, UNCTAD has been identified as a lead organization in expanding the EMPRETEC model to 10 new African countries under an initial phase of UNDP's Enterprise Africa project and in further developing the IDRC-UNCTAD network of Centres for Innovation and Enterprise Development (CIEDs), currently in its pilot phase.

57. UNCTAD is also cooperating with the CARICOM Secretariat, the Caribbean Council for Science and Technology, OAS, and UNDP in launching an EMPRETEC Caribbean regional programme. Building on the lessons learnt from implementing the EMPRETEC programme over 10 years, UNCTAD has developed an expanded programme for which elements will be designed and implemented in close collaboration with other international institutions, including ILO, ITC, UNEP, and UNIDO.

58. In addition, UNCTAD is implementing a project on "African Commodity Sector Diversification through South-South Cooperation in Trade and Investment" under which specific activities entail an exchange of information with ITC and the Office of the Special Coordinator for Least Developed, Land-locked and Island Developing Countries. Of the 13 sub-Saharan countries participating in study visits to South-East Asia in December 1996, six were LDCs.

Notes

1/ Report of the Commission on Enterprise, Business Facilitation and Development on its first session, TD/B/44/2-TD/B/COM.3/4, annex I.

2/ See: Report of the Commission on Enterprise, Business Facilitation and Development on its first session (TD/B/44/2), Geneva, 1997, pp. 7-13.

3/ Ibid., p. 22.

4/ See: UNCTAD document TD/B/COM.3/EM.2/L.1.

5/ See: UNCTAD document TD/B/COM.3/EM.2/L.1.

6/ See UNCTAD, Report of the Commission on Enterprise, Business Facilitation and Development on its first session (TD/B/44/2-TD/B/COM.3/4), annex I, paragraphs 3 (ii) and 5. The document entitled "An overview of activities in the area of inter-firm cooperation: A progress report" refers to examples drawn from different sectors and regions where inter-firm cooperation has contributed to technological capability-building and improved competitiveness.

7/ E. Dohlman, Raundi Halverson-Quevedo, "Globalization and development", The OECD Observer, No. 204, 1997.

8/ UNCTAD, World Investment Report 1997 (UNCTAD/WIR 1997), pp. 12-13.

9/ See Porter, M.E., *The Competitive Advantage of Nations*, Macmillan, London and Basingstoke, 1990, pp. 148-9.

10/ Pyke, F., Becattini, G. and Sengenberger, W., Industrial Districts and inter-firm cooperation in Italy, ILO Publications, 1990, London. See also: UNCTAD, "Technological dynamism in industrial districts: An alternative approach to industrialization in developing countries?", Papers and Synthesis of Discussions of a Symposium on Industrial Districts and Technology (UNCTAD/ITD/TEC/11).

11/ Prime areas for study have been Silicon Valley, California, and Route 128, Ma., United States of America; Baden-Württemberg, Germany; the Prato and Emilia Romagna regions of Italy; and Jutland in Denmark.

12/ Lynn K. Mytelka, "Strategic alliances", in F.D. Hampson and C.J. Mande (Editors), Global Jeopardy, Ottawa, Carleton University Press, 1993, p. 107-109.

13/ UNCTAD, "Emerging forms of technological cooperation: The case for technology partnership" (UNCTAD/DST/13), 1996, p. 42.

14/ Ibid, p. 29.

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Geneva, 1 December 1997
Item 4 of the provisional agenda

SERVICES INFRASTRUCTURE FOR DEVELOPMENT AND TRADE EFFICIENCY

Report by the UNCTAD secretariat

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INTRODUCTION

1. The Commission on Enterprise, Business Facilitation and Development, during its first session which was held from 20 to 24 January 1997, conducted an in-depth discussion and exchange of views on the basis of the documentation prepared and the presentations made by the secretariat on agenda item 4, entitled "Services infrastructure for development and trade efficiency". The Commission recognized the importance of continuing the work called for at UNCTAD IX by "A Partnership for Growth and Development" (TD/370), building upon the Columbus Ministerial Declaration in the areas of services infrastructure for development and trade efficiency. In adopting its agreed conclusions at its first session, the Commission considered that the work of the secretariat in the areas of telecommunications, transport, customs, banking and insurance, business practices/trade facilitation, business information, transit, human resources development and legal issues should be pursued in an integrated fashion, so as to maximize the synergies and economies of scale which may be identified between these areas. The Commission thus provided guidelines and set priorities for the work of the secretariat for its second session.

2. In this context, the Commission requested the secretariat to provide an evaluation of the Trade Point Programme including the extent of the inter-operability of Trade Points, to prepare an information note on the basis of a cost benefit-analysis of practical ways and means to ensure the legal protection of the Trade Point and Global Trade Point network names and logos and to prepare an interim report on which a trade efficiency assessment exercise could be organized. The Commission also stressed the importance of pursuing and deepening cooperation between UNCTAD and other organs of the United Nations system and specialized agencies and requested the Secretariat to provide a report on the extent of such cooperation.

3. It also decided to consider at its second session the contribution that infrastructure services can make to the informal sector and the development of micro-enterprises. Since the Commission will be considering the above issue for the first time, the first section of the present document is devoted to a progress report on the activities initiated by the UNCTAD secretariat to contribute to the development of infrastructure services specifically designed to assist the informal sector and to promote the development of micro-enterprises.

4. The second section of the document covers the other four sub-items on the Commission's agenda, namely: (1) trade efficiency strategy; (2) legal dimensions of the Trade Point programme; (3) inter-institutional cooperation in the field of trade efficiency; and (4) trade efficiency assessment. The Trade Point strategy and the most recent evaluation of Trade Points' activities are covered in greater detail in a separate document, the Trade Point Review. The issue of a trade efficiency assessment methodology is addressed in document TD/B/COM.3/10/Add.1.

I. NEW SERVICES FOR DEVELOPMENT

"...The aim will be to bring more of the world's poor into the expanding zone of opportunity, by increasing the conditions for domestic and international investment, job creation and people-driven and people-centred development "

Kofi Annan, Secretary-General of the United Nations

1. Background

5. The UNDP Human development Report 1996 estimates that a third of the world population - 1.3 billion people - lives in poverty. The poor tend to earn their living in what is known as the "informal sector" and this represents both a challenge and an opportunity for development. It is a challenge to ensure that people who work in the informal sector are not condemned to social exclusion in the context of a globalized economy dominated by market forces where the order of the day is competition, profit, efficiency, knowledge and technology. It is an opportunity because it is a dormant productive force that can constitute an important engine for growth. The inherent energy of this force should not be neglected, as it is fueled by the struggle to survive.

6. Microenterprise, with its flexibility and rapid response to growth opportunities, is rapidly emerging as an important tool in the efforts to alleviate poverty. The development and growth of microenterprises require the availability of and access to adequate local support services which in most developing countries are currently limited and do not address the specific needs of this sector. These services range from business advice, marketing and training to financial services such as credit, savings and insurance. The weaknesses in the necessary services infrastructure are why many potentially income-generating, job-creating microenterprises never takeoff.

> *"Over **500 million of the world's economically active poor** run profitable micro and small businesses. **Fewer than 2 percent** of these low income entrepreneurs have **access to financial services** other than money lenders".*
>
> The Consultative Group to Assist the Poorest

7. The secretariat's strategy has been to identify areas where UNCTAD has a comparative advantage and can contribute in a **practical** manner to fulfilling the needs of the informal sector. One such area has been to promote the organization of an international microfinance market, which is covered in this paper. Other practical initiatives conducive to the development of services infrastructure for the informal sector, such as microbusiness points and microinsurance schemes, are currently being explored and, once field-tested, will be reported to the Commission.

8. Although there are many initiatives by both NGOs and international organizations to deliver microcredit services and while the demand for such services is growing (potential demand estimated at 120 billion USD), the funds feeding into these services (more than 50 percent from donors) are limited and even shrinking (according to OECD DAC report, from 1992 to 1995 net ODA fell by 14 percent in real terms). There is therefore a need for the microcredit providers to access private funds and tap into international financial markets.

9. UNCTAD, through the establishment of a private fund in Luxembourg, announced during UNCTAD IX by the Government of Luxembourg and designed to invest in microfinance, has proven its ability to act as a catalyst in promoting private sector participation in making microcredit accessible to the informal sector on a sustainable basis.

10. In an attempt to combat poverty, Governments in developing countries have, for decades, been trying to direct and expand the outreach of credit through development banks and other government-sponsored programmes. However, studies show that despite massive subsidies, development banks have been beset by insolvency and liquidity problems and have had little success in reaching the intended beneficiaries: individuals without collateral or with below-average income.

11. This failure has been partly due to the application of traditional

lending mechanisms to a market where individual credit needs are small, screening and monitoring are costly and enforcement is difficult. The borrowers have few assets that can be offered as collateral, transaction costs are high and often repayment obligations cannot be enforced due to political constraints or lack of incentive on the part of bank officials. In addition, the lack of complementary infrastructure such as insurance services has not helped the default problem.

12. Many innovative ideas and approaches have been initiated (often out of frustration at failed public sector initiatives) at the grass-root level by the private sector and NGOs to address the needs of the informal sector. One such initiative concerns microcredit. Microcredit, which is essentially about providing small loans under market conditions to micro-enterprises through commercially-run microfinance institutions (MFIs), is now widely recognized as an essential means of empowering people to finance entrepreneurial activities, generate their own income and help themselves out of poverty.

13. The microcredit summit organized in February 1997 in Washington D.C. by an NGO and sponsored by several private foundations brought together more than 2,900 people from 137 countries and launched a campaign to reach 100 million of the world's poorest families, especially the women of these families, with credit for self-employment and other financial and business services by the year 2005. According to the microcredit summit, an estimated US$ 21.6 billion is needed for this, almost 10 billion of which will have to be raised from the savings of the poor and from the commercial markets.

14. Worldwide, there are today about 7,000 MFIs specializing in making small loans to micro entrepreneurs. The success of microlending has resulted in an exponential growth in the demand for microcredit, and the need has arisen for MFIs to mobilize funds from sources other than stagnating official development funds and limited concessional credit. At the same time, the demand for new investment opportunities exists in the financial markets, particularly from socially responsible investors.

15. Although many MFIs are still dependent on donations, an increasing number are turning to the private sector to mobilize funds under market conditions. The problem is that these institutions operate outside the formal banking sector and often cannot meet the standard criteria expected by formal financial markets.

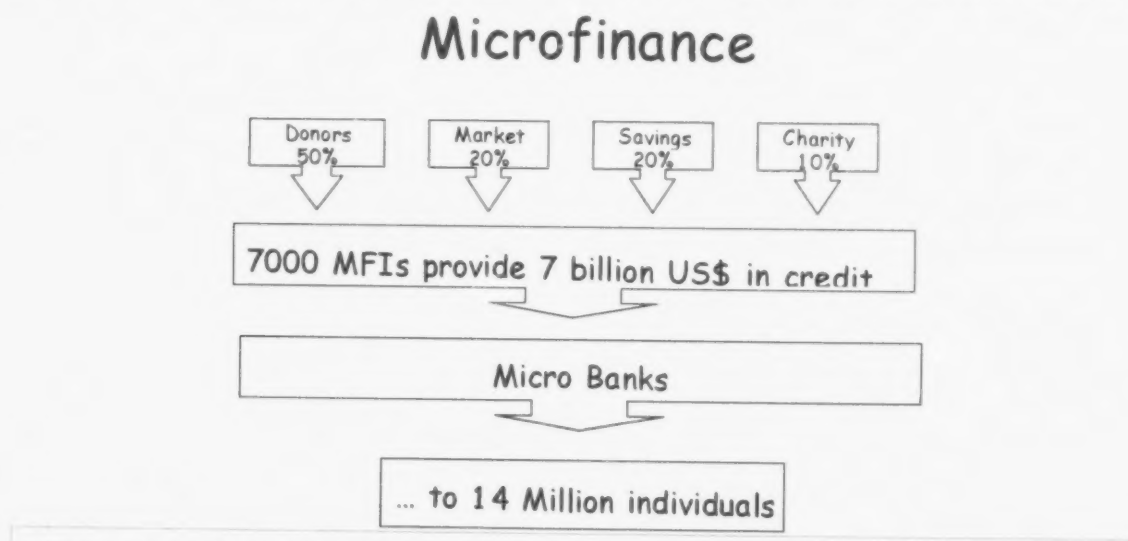
Microfinance
Donors 50%
Market 20%
Savings 20%
Charity 10%
7000 MFIs provide 7 billion US$ in credit
Micro Banks
... to 14 Million individuals
"There are nearly US$ 12 trillion pool of capital now available in the burgeoning funds and pension assets in the North."
Marshall Carter - Money Matters Institute

Figure 1

And yet MFIs have traditionally experienced high repayment rates (95 to 98 percent) and they work in a high-growth sector. Many are increasingly aiming at financial sustainability through economies of scale and charging interest rates and fees that cover the real cost of credit delivery.

16. Most MFIs, once they have established a good track record and documented their ability to recover loans, should be able to raise money in the financial markets to finance their expansion. Those MFIs which have raised funds this way have found it less cumbersome and restrictive than soliciting donations. Moreover, loans make MFIs more independent and open the door to a much larger pool of money.

17. By improving access by MFIs to international markets, assisting them in meeting the necessary criteria to mobilize such funds and at the same time providing an alternative paradigm to international investors, one can channel funds, in a sustainable manner, from the private sector in the developed world to the private sector in the developing world.

2. Action

"... *the engine of development now, without doubt, is private capital.*"
Kofi Annan

18. The strategy of UNCTAD's action plan in this area is based on a "bottom up" approach to development rather than the traditional "trickle down". Instead of having "master plans" and going through Governments and institutions, it is designed to provide directly, at the grass-roots level, financial services and opportunities for the poor who are excluded from becoming active participants in the economy.

19. The strategy has been guided by a number of principles, according to which it should:

(a) Focus on the elaboration of concrete solutions;

(b) Recognize and build on best practices and examples;

(c) Work in partnership with the civil society, including grass-roots organizations, the private sector, local businesses and also with national Governments;

(d) Act as a catalyst; and

(e) Promote the use of market mechanisms.

20. The programme's main objective is to **facilitate investment in microfinance by private investors. This is seen as indispensable for the long-term sustainability of the microcredit market and in reaching the millions living in poverty.**

21. The UNCTAD-initiated private BIL fund, investing in microfinance, has demonstrated to the international financial markets that the poor are bankable. It is expected that other similar investment funds will be established, which should increase the amount, and consequently decrease the costs, of funds available for lending to the poor. The success of these funds would demonstrate to private investors, particularly socially responsible investors, not only the investment potential but also the social impact of emerging markets for financial services to the poor.

22. One of the most crucial elements needed to pave the way for private funds to reach the unexploited but growing and promising market of microlending is information, particularly information which will enable investors and fund managers to evaluate risks when making investment decisions. There are currently no established standards and benchmarks allowing risk assessment of investments

in microfinance institutions. The focus of the secretariat's work has been on bridging this information gap, creating awareness, and promoting the market.

23. The work undertaken has been organized and pursued along the lines indicated below:

(a) Identification of investment recipients

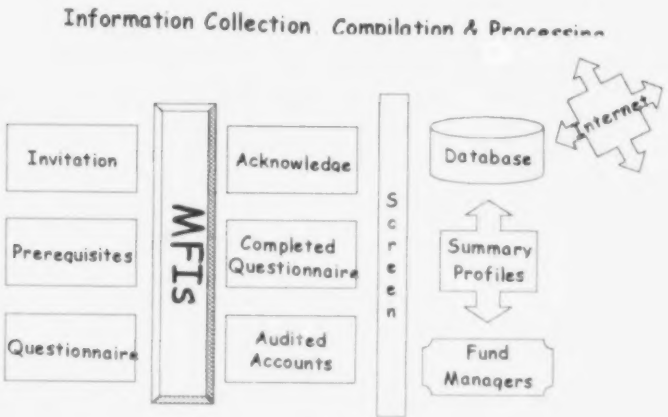

Figure 2

24. In cooperation with other international organisations, development banks, donor agencies, local governments, NGOs and private investment companies, the UNCTAD secretariat has undertaken a census of microbanks worldwide with the aim of identifying potential recipients of private investment funds, as well as appropriate investment instruments. This involves:

(i) Identification, collection and compilation of information on MFIs;

(ii) Preliminary screening of interested MFIs and preparation of summary information;

(iii) Creation of a microfinance database including the following elements:

- Inventory of microbanks looking for private funds;
- Information regarding interested international investors and funds;
- Survey by country of the legal and fiscal environment specifically related to investment in microfinance;

(iv) Development of an Internet microbanking site where all the above information could be accessed;

(v) Identification of a feasible debt financing instrument and securitisation; and

(vi) Dissemination of best practices in lending policy and default control by microlending institutions.

(b) Financial research

25. The information gathered from microbanks interested in raising private funds will be used to identify industry standards and benchmarks facilitating the evaluation of these institutions by potential lenders or investors. Proposals will then be drawn up for the use of local or international guarantee schemes.

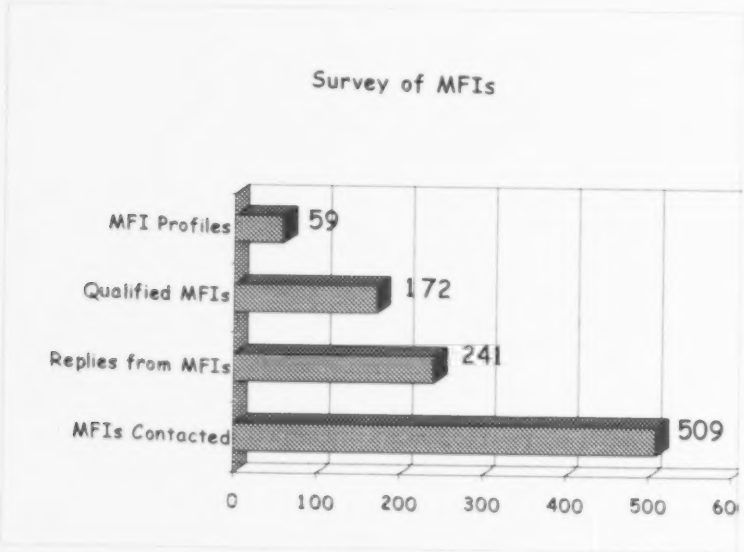

Figure 3

26. The progress made to date is as follows:

- A methodology has been established for the identification of interested MFIs;
- Questionnaires have been designed and developed for information collection from MFIs;
- A preliminary selection criterion has been established;
- In collaboration with BIL and its fund manager a summary report sheet has been developed to reflect the institutional and financial credibility of MFIs and to be used for comparison purposes;
- A database has been developed containing information from 600 MFIs in 15 countries;
- For 60 MFIs, the information has been analyzed and summary reports prepared;
- 50 MFIs have been visited and the most appropriate means of channelling investment to their institutions, i.e. bonds, asset-backed securities, potential guarantors or insurance companies underwriting debt documents, etc., have been discussed;
- A preliminary survey of the legal and fiscal environment in 15 countries has been completed.

3. Expected outcome and development impact

27. It is expected that, through this initiative, a direct link will be established between private investors and microfinance institutions in developing countries, consequently giving birth to a promising market that will

37. Introduced to UNCTAD's membership in the course of 1991, the Trade Efficiency Programme received the official endorsement of UNCTAD VIII (Cartagena de Indias, Colombia, March 1992) and was further reinforced by the conclusions of the United Nations Symposium on Trade Efficiency (Columbus, Ohio, October 1994) and of UNCTAD IX (Midrand, South Africa, May 1996). Because of the rapid expansion and growing visibility of the Trade Point programme, the overall strategy followed by UNCTAD in the area of trade efficiency has tended to be overshadowed by its technical assistance component. This section is an attempt to summarize this strategy and outline the priorities of the Trade Efficiency programme for the next few years.

Analytical bases

38. Modern trade theory has rapidly moved from a "static" to a "dynamic" conception of comparative advantages. The advent of a new wave of converging technological innovations (especially in the area of telecommunications and information technologies) has heralded a true industrial revolution. The specificity of that revolution is that, contrary to the previous two - which were based on innovative ways to deal with matter and energy - it is affecting time and space.

39. This has important consequences for trade and development. In particular, it offers unprecedented possibilities to revisit the concept of an international division of labour based on the theory of comparative advantages. The so-called 'modern formulation' of this theory (HOS) relies on a set of hypotheses such as the uniformity of information among players and the negligible cost of transactions and transport, which have never been closer to being fulfilled than now. Among the main consequences of this revolution for trade and development, the following have been at the core of UNCTAD's trade efficiency initiative:

- Transaction costs in international trade can be substantially diminished by an adequate use of information technologies;

- Such a diminution would benefit the smaller players such as developing countries, and especially their small and medium-sized enterprises;

- To bear fruit, efforts should be addressed not only at the trade transaction itself, but to all trade-supporting services sectors (e.g. customs, transport, banking and insurance, trade facilitation, business information and telecommunications).

Policy dimension

40. As the analytical work on trade efficiency developed, it became clear that it would have significant consequences at the policy level. It became evident that the trade efficiency strategies would have a positive impact on at least three policy-related areas:

- The empowerment of smaller players (especially SMEs) would encourage Governments to grant higher priority to the enterprise sector in the design and implementation of their trade policies; this could have a significant impact on diversification strategies, as well as on regional integration efforts;

- Greater awareness of the vital importance of trade-supporting services, and in particular of telecommunications as an "infrastructure for competitiveness", would enhance the interest in both the private and the public sector in keeping abreast of developments in the area of information technologies, as well as their efforts to avoid marginalization from the emerging "global networked economy";

A clearer identification of the potential impact of better business practices in the area of international trade, as well as of the ways in which information technologies could contribute to the adoption of such practices, would influence the attitude of many developing countries vis-à-vis "new areas for" multilateral trade negotiations by enhancing their ability to participate actively and positively in such a process.

Practical components and specificity of UNCTAD's work in the area of trade efficiency

41. Through the servicing of UNCTAD's Commission on Enterprise, Business Facilitation and Development and its relevant Expert Meetings, the Division on Services Infrastructure for Development and Trade Efficiency (SITE) is offering member States the possibility of receiving updated information related to trade efficiency and of exchanging experiences. In the field, it assists Governments and enterprises in enhancing the efficiency of their trade-supporting sectors and hence that of their trade sector. This is mainly done through its technical assistance programme, including the Advanced Cargo Information System (ACIS) programme, the Automated System for Customs Data (ASYCUDA), and the Trade Point Programme, as well as training programmes such as TRAINMAR and TRAINFORTRADE.Moreover, the emphasis which has been put by UNCTAD on generating practical results for the trading sector of its member countries has provided its work in the area of trade efficiency with characteristics which have allowed it to work more closely with some non-traditional partners, especially in the private sector.

(b) A first practical illustration: the ASYCUDA Programme

Environmental analysis

42. The ASYCUDA initiative strives to simplify the use, harmonisation and standardisation of common global systems that deal not just with imports and exports but also with the movement of goods. It is based on the idea that information technologies can significantly enhance the role of customs both as a trade facilitator and as a revenue collector. Its mission is to allow member States to turn this opportunity into an economic reality.

43. The environment within which trade efficiency and ASYCUDA have to operate to fulfil this mission is complex. Customs administrations need to reform and modernise, generally from old, safe but outdated positions of security within government to commercially thinking, risk-based businesses, at times competing with the private sector and forging partnerships with many that they perceived, historically, as opponents. Corrupt practices born of individual and institutional vested interests and profit are threatened by ASYCUDA. Political priorities at times suffer from short-term constraints, not recognising the benefits of and the support needed for long-term sustainable customs reform, in respect of which ASYCUDA plays such a leading role. The pathfinding initiatives involved have to survive and succeed in bureaucratic environments not used to the business-like, dynamic, speedy and competitive demands of the modern commercial environment. ASYCUDA therefore needs to be continuously improved to better service the needs of importers and exporters through more efficient customs.

Components of the strategy

44. Anticipated impact. By equipping customs administrations with appropriate tools, ASYCUDA can be (1) a true instrument for customs reform, and (2) a valid tool for trade facilitation and trade efficiency. Measurable results should be found in the reduction of procedure-related delays (e.g. customs clearance), higher efficiency in such procedures (e.g. through selective physical inspection), reduction in graft and "parallel procedures", and broad adoption of internationally recognized norms and standards for trade-related procedures and documentation.

45. Definition and evolution of the product. Since its creation in the early 1980s, the ASYCUDA system has evolved towards a fully integrated open system for customs management and reform. Its unique software is constantly updated by using the most advanced programming and analysis techniques, and its ease of use makes it an instrument adaptable to economies of different sizes and levels of development. Since the inception of UNCTAD's Trade Efficiency Programme, it has become possible to link up ASYCUDA with other information management systems relevant to the international trade sector, including those of ACIS and the Trade Point Programme.

46. Positioning and marketing. As a fully open, highly flexible and integrated system for customs reform and management, ASYCUDA currently fares well vis-à-vis the competition. Its successful beginning in small African economies, however, has in the past created the image of "a system for small economies"; the recent implementation of ASYCUDA in medium-size economies such as Romania or the Philippines has helped to correct this, and the product is now better positioned. It has also been necessary to differentiate ASYCUDA from a mere "software product" and market it as a "reform and management package"; efforts will need to be pursued in that direction; enhanced synergies with the Trade Efficiency and Trade Point programmes will contribute to achieving this goal.

47. Project management and business plan. The Geneva-based ASYCUDA staff has to spend a considerable amount of its time on field missions. The improvement of mission briefings and debriefings therefore requires particular attention. They should be based on a strategic picture and priority should be granted to: (1) developing sound support services; (2) reviewing regional support centres and their relationship with Geneva; and (3) transferring knowledge from the centre to users and regional support centres, within clearly defined policy guidelines. From a financing point of view, due attention should be given to the following: (1) in the light of work carried out so far on alternative methods of finance, research new and innovative proposals for funding the ASYCUDA Programme acceptable to the United Nations, donors and users; (2) considering, in particular, partnerships with the private sector, recycling increases in customs revenue due to ASYCUDA, and securing long-term UN or donor funding; and (3) giving due attention to possibilities such as subcontracting out some services, identifying true costs, and establishing a realistic charging policy, including charging for software, and for central and regional support services.

Priorities for action (tactical mission)

48. Immediate priorities for the further development and sustainability of ASYCUDA are:

- To assist developing countries with trade by removing import and export bottlenecks and improving customs;
- To develop, produce, provide and maintain a high-quality ASYCUDA product that some countries could not otherwise afford, while keeping its current technological edge over commercial providers;
- To ensure sustainability of both the ASYCUDA initiative and the ASYCUDA programme after delivery;

(c) A second practical illustration: the Trade Point Programme

Environment analysis

49. In areas where technological innovations happen almost daily, analytical and conceptual references have shorter life expectancies, and in such areas, practice is often a major source of knowledge and foresight. In the early 1990s, when the Trade Efficiency programme was ready to be launched, many developing countries and economies in transition were faced with very uncertain prospects regarding the structures of their economies (e.g. in Eastern and Central Europe)

and their potential role in international trade (the conclusion of the Uruguay Round was still uncertain). It was therefore felt necessary, when trying to generate support for this new approach, to illustrate it as concretely as possible. Hence the idea of the "Trade Point".

50. A major obstacle in the implementation of the Trade Point Programme stems from contradictions between its founding vision and its basic mandate. In the vision, Trade Points were envisaged as autonomous entities (mainly in the private sector) which would survive only if they brought value-added to their customers and if they were able to recover their costs by charging for their services. Competition mechanisms would then naturally eliminate less performing Trade Points, and stimulate the quality and efficiency of the others. In the mandate received by UNCTAD, however, the involvement of Governments was introduced as a prerequisite, which made it more difficult to establish Trade Points in a fully enterprise-oriented type of context. In some cases, local private players have been able to identify the potential of Trade Points and to develop competing services. In others, the vested interests of pre-existing organizations (public or private) have hindered the development of Trade Points. It must be mentioned, however, that even when Trade Points have not been prevented from operating in the private sector, they sometimes had to face an unfriendly environment: since one of the most immediate practical impacts of Trade Points is to diminish the importance of intermediaries by bringing local enterprises a step closer to their markets and their customers and suppliers, Trade Points sometimes had to face direct or indirect opposition from such intermediaries; this opposition should not be expected to diminish in the future.

Components of the strategy

51. Anticipated impact. Trade Points have a practical set of objectives: they should: (1) allow the enhancement of local awareness (in government and in the business community) of the potential for trade efficiency and international competitiveness of better business practices and adequate use of information technologies; (2) contribute to the lowering of transaction costs for local importers and exporters, in particular by offering a "single window" for trade procedures and low-cost tools for participating in information-intensive sectors of international trade such as electronic commerce; and (3) promote the adoption of internationally recognized norms and standards for trade transactions and trade-related documentation.

52. As the number of Trade Points continued to grow steadily over the years,[1] it became clear that they could be the basis for a global network of advanced players in the area of trade information and electronic commerce. This is why, on the occasion of the United Nations International Symposium on Trade Efficiency (UNISTE, Columbus, October 1994), it was decided to move on to the second stage of the Trade Point programme by launching the Global Trade Point Network (GTPNet), which rapidly emerged as the largest global network for pre-transactional trade information. The next step in UNCTAD's Trade Point strategy then became to move from this pre-transactional role of Trade Points to a fully transactional role, which would turn the Trade Point network into the first global instrument for electronic commerce. This was done at the trade efficiency symposium held in parallel with UNCTAD IX (Midrand, May 1996), when the third stage of the programme ("From contacts to contracts") was launched. Efforts to allow Trade Points to use secure ETOs (Electronic Trading Opportunities) and secure payments (SEAL project) are being actively pursued at a limited number of pilot sites and should soon be extended to a larger number of Trade Points.

53. Positioning and marketing. Participation in the Global Trade Point Network must be seen as an opportunity (especially for smaller players such as developing countries and small and medium-sized enterprises) to participate in the more dynamic sectors of international trade, in particular electronic commerce. Defined as such, the "Trade Point" product is clearly differentiated

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[1] Today, there are 131 Trade Points at various stages of development in 106 countries, of which 20 are LDCs.

from trade information systems.

54. Project management and business plan. The main objective of the Trade Point programme continues to be to produce practical results at the local level, i.e. to provide local enterprises (especially small and medium-sized enterprises) with flexible, low-cost tools to compete on international markets. Considering the rapid increase in the number and geographical dissemination of Trade Points, the programme will need to pursue its trend towards decentralization and greater reliance on local partners such as regional fora. This decentralization will be reflected at the technical level, since the Global Trade Point Network will rely more and more on local "mirror sites", which will help diminish access costs. The financial sustainability of Trade Points will remain a longer-term objective in poorer regions and in the least developed countries, which should continue to benefit from external support to enhance their trade efficiency strategies, including through the establishment and management of Trade Points. In most other cases, financial sustainability can be obtained through the marketing and selling of value-added services to Trade Point customers. This will need to be encouraged through the adoption of a set of rules and guidelines to be recognized, supported and promoted by all Trade Points; the establishment of a Trade Point Federation (see below) would be of interest in that context. As far as the financial sustainability of the Trade Point programme is concerned, fund-raising efforts will need to be actively pursued to allow the Global Trade Point Network to become truly global and fully inter-operable, which will require special support for some regions with no or poor telecommunications infrastructure. Strategic alliances and partnerships with other related international efforts and organizations should be sought, as well as with the private sector.

Priorities for action ('tactical mission')

55. Objectives. The following objectives will constitute the basis of UNCTAD's trade point strategy in the next few years:

(i) Pursuance of efforts to use Trade Points to increase member countries' awareness of the nature and possible impact of the Columbus recommendations on trade efficiency; enhancement of UNCTAD's support to assist interested countries in implementing such recommendations with a view to diminishing international transaction costs and stimulating the trade competitiveness of small and medium-sized enterprises (SMEs);

(ii) Pursuance of the collaboration with the private sector, including through partnership and strategic alliances, in particular in the context of the Trade Point programme;

(iii) Pursuance of efforts to offer an integrated technical assistance package in the area of trade efficiency, through the Trade Point network; other programmes of UNCTAD's Division on Services Infrastructure and Trade Efficiency (SITE) such as TRAINFORTRADE, TRAINMAR, ASYCUDA and ACIS should contribute to such a package;

(iv) Enhancement of efforts to develop the Trade Point programme, including through increased inter-operability, legal protection of the name and logo, constitution of a proper institutional framework, and offering of additional practical tools for electronic commerce (e.g. in the area of electronic payments and secure Internet transactions).

56. Special areas of attention. Within its limited human and financial resources, UNCTAD will give special attention to the following objectives:

(i) Specific support for the Trade Points established or being established in the least developed countries (in particular in Africa); efforts to mobilize donors to this end will be granted priority;

(ii) Integration of a strong training component in Trade Point activities and projects;

(iii) Assistance for successful Trade Points in order to allow them to progressively become financially and institutionally independent;

(iv) In cooperation with the more advanced players in the field (including the private sector), provision of advanced tools for electronic payments and secure Internet-based transactions;

(v) Pursuance of efforts to lower the cost of accessing GTPNet, including through an increase in the number of mirror sites; and

(vi) Pursuance of efforts to inform Trade Points and their clients of the most recent developments in the areas of trade facilitation and electronic commerce, including in the regulatory and legal domains.

2. Legal dimensions of the Trade Point programme

(a) Common guidelines for Trade Points at the national level

57. In October 1993, the main principles and guidelines for the establishment of Trade Points were released by UNCTAD.[1] One fundamental principle of Trade Points is that their legal status and activities must respect the local legislative and regulatory environment. Considering the broad variety of such legislation and environments, the "model statutes" offered had to embody a high degree of flexibility. Trade Points can be public, semi-public or private. Most frequently asked questions include the following: what basic rules should be included in the statutes, what should be the legal status of a Trade Point, how should it be managed, how should it be financed, what are the responsibilities of parties involved, and in case of disputes which rules should operate and where should disputes be resolved? To address these important questions, it is now felt by most Trade Points that a more explicit set of guidelines for the establishment and operation of Trade Points at the national level should be produced, which would take into account the significantly broader range of activities and geographical distribution of Trade Points. The UNCTAD secretariat could produce the basic legal texts which would allow such guidelines to be produced. However, their adoption and implementation at the local level will require the recognition of an appropriate level of jurisdiction, which remains the responsibility of local players, including Governments.

(b) Legal requirements to organize Trade Points' institutional cooperation at the international level

58. Trade Points have reached a phase in which it has become a necessity to create an institutional framework for further cooperation at the international, regional and subregional levels. For example, in November 1996, the Inter-American Trade Point Forum was founded in cooperation with UNCTAD, covering Trade Points in North, Central and South America and the Caribbean. Its main objective is to strengthen the Trade Point network in the continent through regional cooperation and mutual assistance. The Forum will provide technical assistance and training to Trade Points. It will coordinate the exchange of information on trading opportunities as well as the facilities offered by international, regional and national institutions in the fields of trade financing, trade promotion, training and technical cooperation.

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[1] 'The Trade Point: Concept and Implementation', TD/B/WG.2/7/Add.1, 7 October 1993.

59. A Western African regional forum was established on the occasion of a regional Trade Point meeting in Dakar, Senegal (7-8 July 1997). As discussed at the Second Meeting of Eastern and Southern African Trade Points, held in Harare, Zimbabwe, on 14-15 July 1997, a similar forum is to be set up in the Eastern and Southern African region. An Interim Committee was appointed to coordinate the creation of the forum. Similar Trade Point Fora providing a permanent structure for cooperation and discussion are expected to be established in other regions in the near future.

60. With the rapid increase in the number of Trade Points worldwide and the technical developments in this field, the absence of an international federation and regional fora representing Trade Points is strongly felt. As more and more regional and subregional fora of Trade Points are formed, UNCTAD is being called upon to ensure harmonization and provide legal assistance in designing the statutes of these fora.

61. At its eighth executive session, in June 1995, the Trade and Development Board was requested that statutes be drafted by UNCTAD regarding the establishment of an International Federation of Trade Points. The secretariat has informally provided the Trade Points with a first draft of the Statutes, which will serve as a basis for further discussions.

62. The Federation, as proposed by UNCTAD, would be a non-governmental and a non-profit-making organization. The objectives of such a Federation would be to promote cooperation and coordination among Trade Points, which would facilitate the international exchange of goods and services among all countries and more specifically encourage a wider participation in world trade by developing countries and countries in transition. The Federation would promote the development of Trade Points throughout the world; coordinate activities and represent the Trade Points at the international level; adopt common policies and recommendations for Trade Points; provide technical assistance; establish and maintain a list of Trade Points that are members of the Federation and are associated with the Global Trade Point Network; and cooperate with Governments and other international organizations. The Federation should have a General Assembly and a Council and should have regional conferences as appropriate. It would operate in close cooperation with UNCTAD.

(c) Legal protection of the "Trade Point", "Global Trade Point Network (GTPNet)", and "Electronic Trading Opportunities (ETO)" names and logos

63. Trade Points have to conform to UNCTAD's rules and guidelines[4] and have to abide by the international standards produced and/or promoted by the United Nations. With the success of the Trade Point concept, third parties may want to set up offices using the same name but not respecting the set of rules established for Trade Points. The fear that this will happen is growing, and it is in that context in particular that the protection of the "Trade Point", "Global Trade Point Network (GTPNet)", and "Electronic Trading Opportunities (ETO)" names and logos has become even more relevant. The absence of an International Federation, referred to earlier, makes it more difficult to find appropriate protection at the international level. The UNCTAD secretariat has consulted experts at the World Intellectual Property Organization (WIPO) about ways to protect these expressions and logos. The secretariat was advised that it is not possible to protect the expressions and the logos under the Paris Convention for the Protection of Intellectual Property. However, it is possible for each Trade Point to register the expressions and the logos as service marks or trade names in accordance with national legislation of the country where the Trade Point is established. International coordination by the UNCTAD secretariat of action in this regard, at the national level, should provide a fair measure of protection of the expressions and the logos against unauthorized use by parties that are not associated with the Trade Point programme.

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[4] As specified in document TD/B/WG.2/7/Add.1 of October 1993.

3. Inter-institutional cooperation in the trade efficiency area

(a) Cooperation with the United Nations Economic Commission for Europe (UN/ECE) and the International Trade Centre (ITC UNCTAD/WTO)

64. UN/ECE has a longstanding record in the preparation of trade facilitation standards and automation of trade transaction procedures. ITC provides highly appreciated technical assistance to member countries in the field of business information and export promotion. Through its Trade Point programme, UNCTAD can contribute to disseminating and promoting such work. With a view to taking the fullest advantage of their respective comparative strengths for the achievement of common objectives, all three agencies work closely together, both formally and informally.[1] An official framework for their cooperation is provided by the inter-institutional task force comprising representatives of UN/ECE, ITC and UNCTAD who meet regularly every other month in order to exchange information about their ongoing and planned activities and to identify the potential for joint action.

65. It has become a common practice for experts from sister organizations to be invited to attend and to make presentations at each other's meetings, which enables them to make their work known to a broader audience, not necessarily identical with that at their own events. Whenever a trade-efficiency-related mission comes to Geneva to visit one of the agencies, or whenever a course is held on the issue, the agency in charge resorts to the others' expertise and organizes meetings or courses with the participation of all three of them. In addition, given the budgetary constraints, the work of the other agencies is publicized during most trade-efficiency-related missions. The awareness among Trade Points of this close inter-agency cooperation has also considerably increased, as testified by invitations to Trade Point events addressed jointly to ITC and UNCTAD, as was, for instance, the case of the First Meeting of the MERCOSUR Trade Points (Córdoba, Argentina, March 1997), which was attended by representatives of both agencies.

66. Since provision of business information is one of the first priorities for Trade Points at earlier stages of their development, it is understandable that fruitful and intensive cooperation has developed between UNCTAD and ITC in this area. The synergy of their activities is further strengthened by the fact that they often work with the same counterparts in member countries. This is the case particularly in Central and Eastern Europe, where many countries are in the process of setting up their trade promotion organizations, which constitute a traditional domain of ITC's technical assistance and which, at the same time, frequently become hosts for Trade Points. For example, a comprehensive joint project of this kind, funded by the Government of Switzerland, is being conducted by ITC and UNCTAD (Trade Point, TRAINFORTRADE) with the Romanian Foreign Trade Centre, and similar interaction exists also in Lithuania and Latvia. In turn, ITC is attempting to involve the existing Trade Points in the preparation and implementation of its business information activities. For example, workshops have already been organized and a project document is currently being finalized with the participation of UNCTAD and Trade Points in the countries concerned on the establishment of an Intra-CIS/Baltic States Trade Information Network (ICTIN). Another area of cooperation between the Trade Point programme and ITC is training. A two-day seminar on trade information management was delivered by ITC at the annual meeting of the Inter-American Trade Point Forum (Mexico City, September 1997). A request for similar training was made by the second regional Trade Point meeting of Southern and Eastern African countries (Harare, July 1997); it is expected to be organized in 1998.

67. Consistent efforts are being made by ITC and UNCTAD to promote the use of UN EDIFACT standards and recommendations for trade facilitation. The UN layout key and the programme of work on combined transport, as well as the use of UN/ECE standards by UNCTAD's ASYCUDA and ACIS programmes, are examples of such

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[1] For further details, see "Trade Facilitation and Efficiency: A Coordinated Programme of the United Nations", UN/ECE-UNCTAD-ITC, April 1996.

cooperation. In the same vein, UN EDIFACT-compatible messages served as a basis for the ITC COMREG standard for company information, as well as for UNCTAD's business opportunities (ETOs) circulated in the Global Trade Point Network. COMREG software was distributed to a sample of Trade Points for testing and subsequent use, and work is now under way to make ETOs and COMREG structures fully compatible. The effective use of UN/ECE "products" is bound to increase further in the future, along with a more massive involvement of Trade Points in trade facilitation activities and electronic data interchange that are technically more demanding and usually start to be implemented at a later stage of Trade Points' development.

(b) Cooperation with other organizations

68. In each of the main sectors covered by UNCTAD's Trade Efficiency Programme, strong cooperation has been established with relevant institutions. Examples include the World Customs Organization (WCO), the International Maritime Organization (IMO), the International Federation of Freight Forwarders Associations (FIATA), the Society for Worldwide Interbank Financial Transactions (SWIFT), the African Insurance Organization (AIO), the International Insurance Supervisors Association (IISA), or the Internet Society (ISOC). Particular mention must be made of the fast-expanding cooperation established between UNCTAD and the International Telecommunications Union (ITU), which allowed in particular the combined organization of UNCTAD's Expert Meeting on Telecommunications, Business Facilitation and Trade Efficiency (8-10 September 1997) and ITU's 'Telecom Interactive' meeting (8-14 September 1997). The recommendations of the experts outlined avenues for the pursuance and strengthening of such cooperation.

69. Inter-institutional cooperation has also been significant with regional institutions, including UN regional economic and social commissions and regional development banks. It has also been important with institutions with cross-sectoral competencies, such as the Organization for Economic Cooperation and Development (OECD), the World Bank (in particular its MIGA and InfoDev programmes), the International Monetary Fund, the International Chamber of Commerce, the Association of G.77 Chambers of Commerce and the World Trade Centers Association (WTCA).

70. Inter-institutional cooperation with the World Trade Organization (WTO) is expected to grow significantly as issues related to trade facilitation and electronic commerce start being discussed in that context. Moreover, as the work on the legal dimensions of trade efficiency (see above) gathers momentum, further cooperation will increase with organizations such as the United Nations Commission on International Trade Law (UNCITRAL), the World Intellectual Property Organization (WIPO) and the International Organization for Stadardization(ISO).

4. Trade Efficiency Assessment

71. As mentioned in the introduction to the present document, the theme of a trade efficiency assessment methodology is addressed in document TD/B/COM.3/10/Add.1.